SECURING OUR FUTURE

YANCOAL AUSTRALIA LTD
ANNUAL REPORT 2015

YANCOAL
兖煤澳大利亚有限公司

Strengthening our future as one of Australia's largest and leading coal miners.

Yancoal Australia Ltd (Yancoal) produces approximately 15.5 million tonnes of saleable (equity basis) thermal and metallurgical coal per annum for export into international markets.

Operating four sites and managing five others across New South Wales, Queensland and Western Australia, Yancoal employs approximately 2,000 people, sourcing the majority of our people from the local communities in which we operate.

Yancoal's New South Wales region includes the mines of Moolarben and Stratford Duralie, with the Queensland region comprising Yarrabee and the Middlemount Joint Venture.

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

As at 31 December 2015, Yancoal had 994,216,659 shares on issue. The two largest shareholders were Yanzhou Coal with 78.0% holding and the Noble Group with 13.2%.

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

2 Subsequent to the end of the financial year, effective from 31 March 2016, Yancoal ceased to control Watagan (a wholly owned subsidiary of Yancoal Australia Ltd) and remains as the exclusive provider of mine management, marketing, infrastructure and other corporate support services for the Ashton, Austar and Donaldson assets.

OUR HIGHLIGHTS

Via the restructuring of our undergrounds and continued improvements at our open cuts, we have achieved significant cost savings on the year prior, met forecast production targets and further developed our major projects.

15.26m

SALEABLE COAL (EQUITY SHARE TONNES)

In accordance with the Company's full year operational guidance of 15 to 15.5 million tonnes, Yancoal operations produced a total 15.26 million tonnes saleable coal (equity share) for 2015.

17.81m

SALES VOLUMES (EQUITY SHARE TONNES)

Consistency of supply and engagement with new customer markets achieved full year sales volumes of 17.81 million tonnes (equity share), up one percent on the year prior.

20.8m

RUN OF MINE (EQUITY SHARE TONNES)

Yancoal achieved strong production of 20.8 million tonnes Run of Mine (ROM) coal (equity share), maximising blending opportunities and site yields.

$62.6m

Yancoal further improved operational efficiencies and significant cost savings, reporting a Full Year 2015 loss after income tax of $291.2 million, an improvement of $62.6 million on the year prior.

$1.3b

Yancoal responded to the sustained global market constraints via the maximising of blending opportunities to generate $1.3 billion of revenue (before tax) from continuing operations.

MARKET CONDITIONS

In response to the continued downturn, Yancoal restructured the Austar and Abel underground mines and transitioned the Stratford Duralie open cut operation from a contractor-operator model to owner-operated.

Yancoal continues to implement operational efficiencies and cost savings to address the increasing headwinds of a challenging market, while remaining committed to developing its major projects and investing within the Australian resources sector.

OUR HIGHLIGHTS
CONTINUED

OPERATING PERFORMANCE

Yancoal responded to the sustained global market constraints via the maximising of blending opportunities, restructure of the Austar and Abel underground mines and transition of the Stratford Duralie open cut operation from contractor-operated to owner-operated, implementing improved production rates to achieve strong total production of 20.8 million tonnes Run of Mine (ROM) coal (equity share) and 15.2 million tonnes saleable product coal (equity share).

Title			2014	2015	YoY change
Run of Mine (ROM) Coal Production	Equity	mt	22.5	20.8	-7%
Saleable Coal Production	Equity	mt	16.7	15.3	-9%
Coal Sales	Equity	mt	17.6	17.8	1%
Costs FOB[1]		A$/t	84	84	1%
Price Achievement[1]		A$/t	87	84	-3%
Product Mix (Met % / Thermal %)			43/57	43/57	
Capital Expenditure[1]		A$m	147	211	43%

1 Equity is pro-rata equity share based calculation and excludes Middlemount.

FINANCIAL PERFORMANCE

Yancoal further improved operational efficiencies and delivered significant costs savings during the period, reporting a loss after income tax of $291.2 million, from revenue of $1.3 billion for the full year ended 31 December 2015. Operating EBIT was a loss of $200.8 million. Yancoal delivered a negative operating EBITDA of $0.4 million.

The loss for 2015 reflects the continued impacts of low thermal and metallurgical coal prices throughout the reporting period, driven by global market oversupply and subsequent impacts of China's National Development and Reform Commission's introduction of new quality coal restrictions for imports into specific regions.

Profit results for 2015 and 2014 with accounting reconciliations	Year ended December 2015			Year ended December 2014		
	Before Tax $m	Tax $m	After Tax $m	Before Tax $m	Tax $m	After Tax $m
Revenue from continuing operations	1,319.1			1,431.7		
Operating EBITDA	(0.4)			(46.5)		
Operating EBIT	(200.8)			(278.2)		
Profit (loss) before non operating items	**(362.5)**	**63.3**	**(299.2)**	**(443.0)**	**35.5**	**(407.5)**
FX gain on loans	–	–	–	24.1	(7.2)	16.9
Impairment reversal	–	–	–	140.0	(42.0)	98.0
Gain on acquisition	6.3	–	6.3	28.3	–	28.3
Mark to market CVRs	–	–	–	(3.5)	–	(3.5)
Remeasurement of royalty	2.4	(0.7)	1.7	(16.8)	5.0	(11.8)
MRRT repeal	–	–	–	–	(73.9)	(73.9)
Profit/(loss)	**(353.8)**	**62.6**	**(291.2)**	**(270.9)**	**(82.6)**	**(353.5)**

OUR OUTLOOK

Cost reductions across operations remain a priority, with Yancoal remaining focused on the delivery of the high-value, low-cost Moolarben Stage Two underground to drive future growth and production performance.

Moving forward, Yancoal will continue to leverage the substantial benefits of 2015's production improvements and cost reductions to develop our Moolarben Stage Two expansion, and continue to work towards achieving our strategic goal of establishing Yancoal as a profitable leader within the Australian coal market.

Throughout 2016, Yancoal will also continue to review its options for the development and implementation of its broader pipeline of brownfield extension projects, subject to global coal market and economic conditions.

If developed, the proposed Stratford open cut extension project has the potential to produce up to 21.5 million tonnes of ROM coal over 11 years at a rate of up to 2.6 million tonnes per annum.

The proposed Ashton South East Open Cut project remains subject to the 2014 condition of the NSW Land and Environment Court approval that no development work associated with the project can occur until Ashton Coal Operations Pty Ltd has acquired a privately owned property which forms part of the proposed mining area.

Yancoal's production outlook is approximately 13 million tonnes (equity share) of saleable production for 2016.

CHAIRMAN'S LETTER

Throughout 2015 Yancoal continued to respond to the constraints of our operating cash flow and low global coal prices with strong and decisive action.

SAFETY THE PRIORITY

We will not stray from our commitment to protecting our people.

While sourcing new funding arrangements to support sustainable future growth, we have also further developed our strict cost control measures across all sites and restructured the underground operations to achieve greater efficiencies.

With the support of our Board, management teams and major shareholders, we have maintained our commitment to our investment within the Australian resources sector, and achieved our development targets for each phase of the low-cost, high-value Moolarben Stage Two asset on time and on budget.

Simultaneously we have continued to pursue and achieve the necessary legislative approvals to consider the future viability and development of our pipeline of potential brownfield expansion and extension projects.

While we are yet to achieve our goal of returning Yancoal to a profitable leader within the Australian marketplace, our full year 2015 after-tax loss of $291.2 million is an improvement on the year prior (31 December 2014 $353.5 million).

Our loss for 2015 reflects the continued impacts of low global thermal and metallurgical coal prices, as well as the limited opportunities for price improvement during what continues to be an oversupplied marketplace.

We were also not immune to the impacts of China's National Development and Reform Commission's introduction of new quality coal restrictions for imports into the regions of Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta, which directly affected our Yarrabee operation for the majority of the reporting period.

Operationally, we overcame significant geological challenges within the underground mines, while maximising our fleet and extractive capabilities at the open cuts, to achieve a strong production result of total ROM coal production of 25.4 million tonnes (20.8 million tonnes equity share) for the year (31 December 2014: 26.8 million tonnes) and saleable coal production of 18.6 million tonnes (15.2 million tonnes equity share) for the year (31 December 2014: 19.9 million tonnes).

I am pleased to report we achieved 2015's production targets without any significant injuries, with sites continuing to demonstrate improvements over the past four years in reported Total Lost Time Injury Frequency Rates and Total Recordable Injury Frequency Rates.

We remain focused on achieving our goal of zero injuries and will not stray from our commitment to protecting our people.

The year ahead will be a time of significant change and new opportunities for our business, as Yancoal implements the terms of our newly secured debt-funding arrangement, as announced 17 February 2016.

The new financing arrangement secures up to US$950 million in debt-funding via the issuing of nine-year secured debt bonds by a newly established Yancoal subsidiary, Watagan Mining Company Pty Ltd, to a consortium of financiers consisting of Industrial Bank Co. Ltd, BOCI Financial Products Limited and United NSW Energy Limited.

The year ahead will be a time of significant change and new opportunities.

This substantial arrangement demonstrates China's continuing commitment to our long-term business strategy and belief in our capabilities to both manage and grow our assets within a currently constrained market.

Under the terms of the funding agreement, Yancoal will cease to control the Austar, Ashton and Donaldson assets from 31 March 2016, but remain as the exclusive provider of mine management, marketing, infrastructure and other corporate support services under 10-year contracts.

As such, our new employing entity for all Eastern Region Underground operations staff, Yancoal Mining Services (YMS), will be appointed to manage the mines to the highest safety, environmental, and operational standards.

Through this investment, Yancoal's executive will have the increased capability and capacity required to focus upon the organic growth of our open cut assets and most critically, the Moolarben complex.

This significant investment, demonstrates the increasing benefits of China and Australia trade relations and how we can work towards maximising the cultural differences and opportunities between our two countries.

Together, we remain positive of an eventual improvement within the global coal market, for both thermal and metallurgical prices and within new and untapped developing markets.

As has been consistently proven, time teaches us the value of maintaining courage, patience and focus during these difficult times.

With this new debt-funding arrangement and the capital secured previously by the issuing of Subordinated Capital Notes in December 2014, Yancoal remains well positioned to deliver on the promise of its future success.

With the support of our financiers and Yancoal's major shareholders, I believe we have the leadership, experience, and long-term strategy required to build a brighter future for all.

XIYONG LI
CHAIRMAN OF THE BOARD

DEBT-FUNDING ARRANGEMENT

This significant investment demonstrates the increasing benefits of China and Australia trade relations.

OUR STRATEGY

Yancoal continues to improve operational efficiencies and deliver significant cost savings to weather the challenges of an increasingly competitive marketplace.

We remain committed to the following long-term business priorities:

OPTIMISATION OF RESOURCES AND VALUE CREATION MECHANISMS

1
MARKETS

Yancoal continues to pursue new opportunities within countries such as China, India and Vietnam, while strengthening its ties with clients based in Japan, Korea and Taiwan. Yancoal continues to maximise the benefits of product and marketing synergies via the wholly owned subsidiary Yancoal Australia Sales Pty Ltd, with responsibility for facilitating the sale of Yancoal, Watagan Mining and Yanzhou coal blends to external parties.

2
PRODUCTS

Making the most of new blending opportunities across Yancoal-controlled operations and those it manages within NSW, Yancoal continues to pursue new markets and client sales, via a strategically targeted approach to elevating our profile and product offerings within the international market.

3
PROJECTS

Yancoal continues to develop the high-value, low-cost, tier-one Moolarben Stage Two project, maximising operational efficiencies, with a commitment to project delivery and success. Yancoal will continue to progress its pipeline of future projects including the proposed Stratford extension, pending market needs.

4
TALENTED PERSONNEL

Yancoal remains committed to developing the skills of its people, working together to build a robust culture of respect, transparency and efficiency, while continuing to employ and retain the right people with the right skills to grow the business into the future.

5
COST REDUCTION

By reducing costs through the improvement of operational efficiencies and sharing of key services and processes, Yancoal continues to grow its business while strategically addressing its existing take or pay arrangements and the challenges of a sustained market downturn.

ASSET PORTFOLIO AND CAPITAL STRUCTURE

Yancoal continues to strengthen its capital structure and portfolio of assets, remaining focused on strategically developing new organic and acquisitive growth opportunities in the Australian resources market.

BUSINESS TRANSPARENCY, COMPLIANCE AND EFFICIENCY

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

CEO'S STATEMENT

The continued strengthening of our operational strategies and implementation of improved costs savings is driving the next stage in the evolution of the Yancoal group.

Maximising blending opportunities and shared services established in the year prior, our operations have worked to meet our production targets under challenging conditions, overcoming production hurdles and adjusting run rates as required.

This flexibility to rapidly adapt to mining conditions has enabled our teams to improve operational efficiencies and reduce significant costs throughout the year.

It has also formed the foundation of our project team's capabilities in managing the development of our high value Moolarben Stage Two asset, which will ultimately drive the future strength of our Yancoal product offerings.

Our continued focus on the delivery of the Moolarben asset demonstrates Yancoal's ongoing commitment to investing within the local resources sector and providing greater opportunities for employment, contract services and community investment within the mid-west region of New South Wales.

Once fully developed, the Moolarben complex will consist of two open cuts and an underground mine, with the potential to produce up to a further 17 million tonnes of ROM coal per annum for a period of 24 years.

2015 production was in accordance with market expectations and Yancoal targets, with improved fleet efficiencies, overburden management, coal handling and processing throughput helping offset production interruptions attributable to scheduled longwall moves and difficult geological conditions in the underground operations.

Steady production gains across operations supported the implementation of improved and sustainable cost controls while maximising yield recoveries and blending.

While we worked to mitigate against the impacts of the sustained market downturn, further restructures unfortunately resulted in a reduction of workforce numbers.

As announced 24 July 2015, the restructure of the Austar and Abel underground mines in New South Wales, resulted in redundancies of 170 employees at the Abel mine and 55 employees at the Austar mine.

The underground restructure included the revision of existing mine plans to accommodate production improvements and provide access to economically recoverable reserves via continuous miners at the Austar operation.

During the second half of 2015, we successfully transitioned the Stratford Duralie open cut operation from a contractor-operator model to owner-operated instead. The change in operations enabling us to more efficiently and directly implement significant cost management strategies across the sites and improve overburden extraction and production rates.

Under the regional operating model, sites continued to share systems and processes, while implementing specific training initiatives in support of the core principles of the "Yancoal Way" culture of safety, integrity, excellence, and innovation.

Subsequent to the end of the financial year and as announced 2 March 2016, we made the necessary decision to move the Donaldson operation, consisting of the Abel underground mine, to 'care and maintenance' in June 2016.

Our flexibility to rapidly adapt to mining conditions has enabled our teams to improve operational efficiencies.

The move to care and maintenance is in response to ongoing global market challenges, with the operation to commence a series of feasibility studies to consider future options for the mine.

Under the terms of our new debt-funding agreement, effective 31 March 2016, Yancoal will cease to control the Austar, Ashton and Donaldson assets, but remain as the exclusive provider of mine management, marketing, infrastructure and other corporate support services under 10-year contracts.

As such, our new employing entity for all eastern region underground operations staff, Yancoal Mining Services, will be appointed to manage the mines to the same high standards we manage the Premier and Cameby Downs mines in Western Australia and Queensland respectively, on behalf our majority shareholder Yanzhou Coal Mining Company Limited.

With 2016 providing new opportunities for growth and operational efficiencies, we remain focused on preserving the safety of our people, implementing leading edge rehabilitation and providing our customers with the guarantee of quality product and delivery.

The year ahead will be one of change and challenge, both of which we are robustly prepared for.

REINHOLD SCHMIDT
CEO YANCOAL AUSTRALIA

MARKET CONTEXT

Global market oversupply remained a significant disadvantage for coal price improvement throughout 2015, with metallurgical and thermal coal prices remaining low for the reporting period.

Early cost reduction benefits attributable to the low Australian dollar during the first half of the year were offset by its gradual improvement and positive return in the second half.

Long-term take or pay arrangements continued to burden the majority of local producers, with the industry experiencing its first round of significant changes and consolidation during 2015, including the entering into administration of Cockatoo Coal, resulting in its holding in the Wiggins Island Coal Export Terminal to be assumed among the remaining investment partners, including Yancoal.

The Australian Securities Exchange remained particularly turbulent for the overall resources sector, with major producers experiencing significant fluctuations month-on-month in response to low commodity prices, sustained delays to project approvals, operating cost increases and subsequent financial loss and asset sale announcements.

The introduction of China's National Development and Reform Commission's new coal quality standards generated new challenges for exporters, disrupting import forecasts for China as a key growth market opportunity, requiring producers, including Yancoal, to adjust coal product to meet specific standards applied to the regions of Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta.

Yancoal's product split (equity share) for the period was 10.2 million tonnes thermal coal and 7.6 million tonnes metallurgical coal.

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

HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

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

The health and safety of our people is our priority and we remain committed to achieving our goal of zero injuries. We will never compromise on safety.

Yancoal remains committed to proactively improving the systems and processes employed across sites to educate, communicate and record employee safety initiatives.

No significant events were recorded at Yancoal mine sites for 2015, with the business continuing to improve its Total Recordable Injury Frequency Rates (TRIFR) and Lost Time Injury Frequency Rates (LTIFR) over the past four years.

In October 2015, the NSW Mine Safety Investigation Unit concluded its investigation into the cause of the 15 April 2014 Austar underground incident. Subsequently, Yancoal received formal notification from the Department of Industry, Resources and Energy in April 2016, confirming it would not be instituting prosecution proceedings.

As part of our commitment to the well-being of our people, Yancoal also institutes an Employee Assistance Program, using external counselling, aimed at resolving or assisting employees with personal issues that may impact their work life. Similar workplace initiatives include the provision of standardised drug and alcohol policies across sites, first aid training, ergonomic risk assessments of individual work areas and training in strain injury prevention.

Environmental management remains a central component of Yancoal's operational standards, with each mine developing and implementing leading edge rehabilitation programs to return affected mining areas to natural woodland or grazing pastures following the completion of operations.

Our rehabilitation programs aim to establish stable, compatible landforms on used mining areas, revegetated with local, native species allowing for the original plant and animal communities to re-establish.

Yancoal is committed to operating to the highest environmental and legislative standards, with a proven track record of operating in an environmentally sensitive manner across its sites. We are continually seeking to improve our production processes, waste management and use of resources to minimise potential impacts on the local environment.

We take our responsibility for engaging transparently and cooperatively with the community in which we operate very seriously, relying upon community consultative committees, reference groups, newsletters, local media, community days and site-specific websites to keep our stakeholders and surrounding landowners informed.

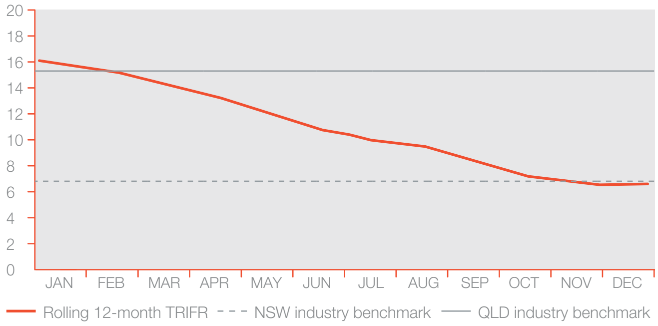
As part of our role within the community, each Yancoal operation also invests financially into local community health, education and sporting initiatives, helping make a positive contribution to the surrounding regions.

Through the Community Support Initiative, Yancoal invested more than $417,000 into community-based initiatives during 2015.

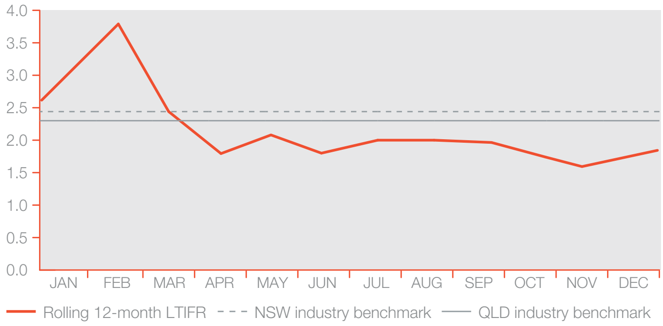
YANCOAL SAFETY

Rolling average trend data

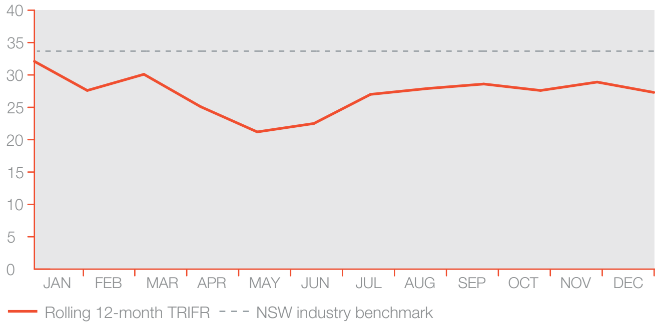
2015 ROLLING 12-MONTH TOTAL RECORDABLE INJURY FREQUENCY RATE – OPEN CUT MINES



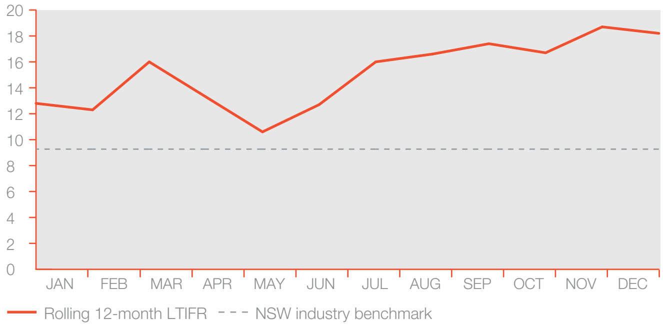
2015 ROLLING 12-MONTH LOST TIME INJURY FREQUENCY RATE – OPEN CUT MINES



2015 ROLLING 12-MONTH TOTAL RECORDABLE INJURY FREQUENCY RATE – UNDERGROUND MINES



2015 ROLLING 12-MONTH LOST TIME INJURY FREQUENCY RATE – UNDERGROUND MINES



REVIEW OF OPERATIONS

The New South Wales region includes the mines of Ashton*, Austar*, Donaldson*, Stratford Duralie and Moolarben. The Queensland region includes the mines of Yarrabee and joint venture Middlemount.

1. ASHTON

100%

Underground

Semi-soft coking coal

3.0Mt
ROM

1.38Mt
Saleable

53.0Mt
Total recoverable reserves – Dec 2015

2. AUSTAR

100%

Underground

Semi-hard coking low ash high fluidity coal

0.82Mt
ROM

0.72Mt
Saleable

49.0Mt
Total recoverable reserves – Dec 2015

3. DONALDSON

100%

Underground

Semi-soft coking coal and thermal coal

1.81Mt
ROM

1.33Mt
Saleable

124.0Mt
Total recoverable reserves – Dec 2015

4. MIDDLEMOUNT

~50%

Open cut

Semi-hard coking coal and low volatile PCI coal

2.77Mt
ROM

2.01Mt
Saleable

79.0Mt
Total recoverable reserves – Dec 2015

5. MOOLARBEN

81%

Open cut

Thermal coal

7.22Mt
ROM

5.54Mt
Saleable

297.0Mt
Total recoverable reserves – Dec 2015

6. STRATFORD DURALIE

100%

Open cut

Semi-soft coking coal and thermal coals

1.85Mt
ROM

1.43Mt
Saleable

50.0Mt
Total recoverable reserves – Dec 2015

7. YARRABEE

100%

Open cut

Low volatile PCI thermal coal

3.36Mt
ROM

2.81Mt
Saleable

44.0Mt
Total recoverable reserves – Dec 2015

All ROM and saleable figures are shown on an equity basis. Coal reserves are inclusive of the coal resources and reported on a 100% basis for each deposit.

* On 17 February 2016, Yancoal Australia announced a new debt funding arrangement to secure up to US$950 million via the issuing of nine-year secured debt bonds by a newly established Yancoal subsidiary, Watagan Mining Company Pty Ltd, to a consortium of financiers consisting of Industrial Bank Co. Ltd, BOCI Financial Products Limited and United NSW Energy Limited.

On and from financial close, effective from 31 March 2016, Yancoal ceased to control the Austar, Ashton and Donaldson assets, but remain as the exclusive provider of mine management, marketing, infrastructure and other corporate support services under 10-year contracts.

ASHTON

YANCOAL 100% UNTIL 31 MARCH 2016

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

Ashton produced 3.0 million tonnes of Run of Mine (ROM) coal and 1.38 million tonnes of saleable coal in 2015.

Ashton Coal Mine has a current underground production capacity of over 1.5Mtpa of high quality semi-soft coking coal, with product coal sold to a number of Asian based steel mills.

The Ashton operation includes an underground mine, open cut project, Coal Handling and Preparation Plant (CHPP) and a rail siding. Mining of the North East Open Cut concluded in early 2011.

As announced 20 November 2015, the New South Wales Court of Appeal determined to uphold a condition attached to the Ashton South East Open Cut Project Approval granted by the NSW Land and Environment Court on 27 August 2014.

The condition provided that no development work associated with the Project can occur until Ashton Coal Operations Pty Ltd has come to a commercial arrangement with respect to a privately owned property, which forms part of the proposed mining area.

The proposed South East Open Cut project has the potential to produce up to 3.6 million tonnes per annum of ROM coal.

Ashton Production	Units	2012	2013	2014	2015	Change YoY
Saleable coal production	Mt	1.08	1.29	1.28	1.38	8%

Note: All data shown on a 100% basis.

AUSTAR

YANCOAL 100% UNTIL 31 MARCH 2016

Austar is one of the oldest mines within New South Wales, having been in operation for nearly 99 years.

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

Yancoal Australia purchased Austar Coal Mine in December 2004, changing its name from Southland to Austar in the process.

The scheduled restructure of operations at Austar during 2015 included the cessation of longwall operations and subsequent introduction of two development production teams in the second half of the year.

Austar produced 0.82 million tonnes of total ROM coal for 2015, with saleable coal production of 0.72 million tonnes.

In October 2015, the NSW Mine Safety Investigation Unit concluded its investigation into the cause of the 15 April 2014 Austar underground incident. Yancoal subsequently received formal notification from the Department of Industry, Resources and Energy in April 2016, confirming it would not be instituting prosecution proceedings.

Austar Production	Units	2012	2013	2014	2015	Change YoY
Saleable coal production	Mt	1.47	1.29	1.51	0.72	-52%

Note: All data shown on a 100% basis.

DONALDSON

YANCOAL 100% UNTIL 31 MARCH 2016

Located in the Hunter Valley, Donaldson's underground Abel mine produces thermal and semi-soft coking coal for blending, exporting via the Port of Newcastle.

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

Rehabilitation of the former Tasman mine was successfully completed in 2014.

Donaldson's Abel underground mine produced a total 1.81 million tonnes of ROM coal and 1.34 million tonnes of saleable coal for 2015.

Abel's production for the second half of the year was in accordance with expectations, following the restructure of the operation in July and subsequent reduction in employee numbers and mining operations.

The Abel underground mine is a bord and pillar operation, using continuous miners for first workings and secondary extraction.

Subsequent to the reporting period, as announced 2 March 2016, the Donaldson operation will move to 'care and maintenance' in June 2016, following a reduction in mining activities and commencement of new feasibility studies.

The move to 'care and maintenance' is in response to ongoing global market challenges as the operation considers the future development of new underground working areas.

Donaldson Production	Units	2012	2013	2014	2015	Change YoY
Saleable coal production	Mt	2.31	2.54	1.95	1.34	-32%

Note: All data shown on a 100% basis. Production for the Gloucester Coal Limited assets for 2012 is included for comparison purposes. The merger with Gloucester Coal was implemented on 6 July 2012.

STRATFORD DURALIE

YANCOAL 100%

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

Commencing production in June 1995, the operation moved to a single open cut pit in 2014, following the cessation of production at the Stratford open cut Bowen Road North Pit in July 2014. Duralie coal continues to be processed at the Stratford Coal Handling and Preparation Plant (CHPP).

Stratford Duralie produced total ROM of 1.85 million tonnes and 1.43 million tonnes of saleable coal for 2015, with the operation transitioning from contractor-operated to owner-operated during the second half of the year. The changeover in management and contractual control facilitating cost management efficiencies and production rate improvements.

As announced 1 June 2015, the New South Wales Planning and Assessment Commission (NSWPAC) approved the Stratford extension application. The project has the potential to extract up to 21.5 million tonnes of ROM coal over 11 years at a rate of up to 2.6 million tonnes per annum. Development of the project is subject to market conditions.

Rehabilitation of the Stratford mine continued throughout 2015 in accordance with all legislative requirements.

Stratford Duralie Production	Units	2012	2013	2014	2015	Change YoY
Saleable coal production	Mt	2.41	2.26	1.95	1.43	-27%

Note: All data shown on a 100% basis. Production for the Gloucester Coal Limited assets for 2012 is included for comparison purposes. The merger with Gloucester Coal was implemented on 6 July 2012.

MIDDLEMOUNT

YANCOAL ~50%

Middlemount mine is an open cut mine located 90km north east of Emerald in Queensland's Bowen Basin.

A Joint Venture between Peabody Energy and Yancoal, the Middlemount mine produces low volatile pulverised coal injection (PCI) coal and semi-hard coking coal used for export markets, with contracted rail and port capacity through Dalrymple Bay Coal Terminal and Abbot Point Port.

Yancoal has a near 50% interest in the Middlemount Coal Joint Venture.

In 2015, the Middlemount open cut mine produced 5.53 million tonnes (2.77 million tonnes equity share) of total ROM coal and 4.01 million tonnes saleable coal (2.01 million tonnes equity share).

Full scale operations at the open-cut mine commenced in November 2011, with mining activities using conventional truck and shovel techniques with ROM coal washed at an onsite facility with a capacity of about 5.3 million tonnes per annum.

Middlemount Production	Units	2012	2013	2014	2015	Change YoY
Saleable coal production	Mt	1.73	2.87	3.64	4.01	10%

Note: All data shown on a 100% basis. Production for the Gloucester Coal Limited assets for 2012 is included for comparison purposes. The merger with Gloucester Coal was implemented on 6 July 2012.

MOOLARBEN

YANCOAL 81%

Located within the Western Coalfields of New South Wales, the Moolarben coal mine is a world-class open cut coal asset producing export quality thermal coal.

In 2015, the Moolarben operation produced total ROM coal of 9.0 million tonnes (7.22 million tonnes equity share) and total saleable coal of 6.9 million tonnes (5.54 million tonnes equity share).

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

Operations comprise an existing open cut mine (Stage One) producing export quality thermal coal and an underground and open cut thermal coal development project (Stage Two).

Once fully developed, the integrated Moolarben Coal Complex (Stage One and Stage Two) will produce up to 17 million tonnes of ROM coal per annum for a period of 24 years.

During 2015, the New South Wales PAC approved the Moolarben Stage Two expansion application, followed by the NSW Department of Industry, Resources and Energy's granting of the mining lease and mining operations plan in September.

Moolarben Production	Units	2012	2013	2014	2015	Change YoY
Saleable coal production	Mt	5.18	6.29	6.36	6.90	8%

Note: All data shown on a 100% basis.

YARRABEE

YANCOAL 100%

The Yarrabee open cut coal mine is located approximately 40 km north east of Blackwater in Central Queensland's Bowen Basin.

Yarrabee produces low volatile, semi-anthracite PCI coal, exporting to steelmakers in the Asian region via the Port of Gladstone. The Yarrabee Coal Mine is a wholly owned subsidiary of Yancoal Australia, acquired as part of Felix Resources Pty Ltd in December 2009.

Yarrabee production was in line with targets, having adjusted its mining processes to assist in meeting the requirements of China's new import coal quality specifications throughout the reporting period. Yarrabee continued to advance its product mix to expand sales into Japan and Korea and develop new markets outside of China.

Yarrabee produced total ROM coal of 3.36 million tonnes and 2.81 million tonnes of saleable coal for 2015.

Product coal is road hauled about 37km to the Boonal load out facility on the Blackwater system and then railed to the RG Tanna and Barney Point Coal Terminals in Gladstone for export to customers.

ROM coal is mined from a number of pits, with the majority of coal blended at the site's coal handling preparation plant, which has a capacity of 350 tonnes per hour.

Yarrabee Production	Units	2012	2013	2014	2015	Change YoY
Saleable coal production	Mt	2.48	3.16	3.22	2.81	-13%

Note: all data shown on a 100% basis.

INFRASTRUCTURE AND LOGISTICS

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

RAIL

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

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

PORTS

Yancoal's proposed production output for the next five years will be supported by the following port capacity:

- **Port Waratah Coal Services (PWCS):** Yancoal currently has Ship or Pay Contracts with PWCS for the export of coal through the terminals at Newcastle, NSW. Yancoal's PWCS allocation is approximately 12.0 million tonnes (100% basis).
- **Newcastle Infrastructure Group (NCIG) Coal Terminal (Yancoal 27.0%):** Yancoal is one of five company shareholders involved in the $2.5 billion NCIG export coal terminal. Yancoal has a 27% ownership with an allocation of approximately 14.6 million tonnes per annum (100% basis).
- **Wiggins Island (Yancoal 5.6%):** Yancoal is one of eight owners of Stage One of the Wiggins island Coal Export Terminal (WICET) project, which will have a capacity of 27 million tonnes per annum and is due to be completed in early 2015. Yancoal's share of Stage One will be 1.5 million tonnes per annum, allocated to the Yarrabee Mine.

TAKE OR PAY

For 2015, Yancoal had Take or Pay (ToP) rail and port commitments in excess of planned sales with a $74 million potential order of magnitude ToP exposure. The Yancoal logistics team has a target of reducing ToP exposure across the group by trading between sites and with other users. Longer term, Yancoal's planned Moolarben Stage 2 expansion will significantly rebalance the mine and logistics equation.

Yancoal has substantial port and rail capacity contracted from 2015 to 2021, well in excess of the planned production profile.

COAL RESOURCE AND RESERVE STATEMENTS

FOR THE YEAR ENDED DECEMBER 2015

COAL RESOURCE AND RESERVE STATEMENTS FOR YEAR ENDING 31 DECEMBER 2015

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

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

The information in this report relating to Coal Resources and Coal Reserves are based on information compiled by competent persons (as defined by the JORC Code 2012 Edition). All competent persons have, at the time of reporting, sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity they are undertaking to qualify as a Competent Person as defined by the JORC Code 2012 Edition. The majority of the Competent Persons listed in this report are independent consultants. The exceptions to this are the Competent Persons for the Coal Resource and Reserves reports for Yarrabee and the Coal Reserve reports for Austar, Ashton and Donaldson, which at the time of reporting were fulltime employees of Yancoal Australia. These Coal Resource and Coal Reserves reports were peer reviewed at the time of their generation.

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

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

All endeavours have been made to comply with the JORC Code 2012 Edition. All of the Coal Resource and Coal Reserve figures presented are reported in 100 per cent terms (unless otherwise stated). All of the Coal Resource information (unless otherwise stated) is inclusive of Coal Resources that have been converted to Coal Reserves (i.e. Coal Resources are not additional to Coal Reserves). The tabulated information is reported by Project, for details of the tenements and leases comprising each of these projects please refer to the following table.

TITLE TENEMENT	TENEMENT TYPE
ASHTON	
ML1529	Mining Lease
ML1623	Mining Lease
ML1533	Mining Lease
EL4918	Exploration Licence
EL5860	Exploration Licence
ML1696	Mining Lease
AUSTAR	
CCL728	Mining Lease
CCL752	Mining Lease
CML2	Mining Lease
ML1388	Mining Lease
ML1550	Mining Lease
ML1661	Mining Lease
ML1666	Mining Lease
ML1677	Mining Lease
EL6598	Exploration Licence
MOOLARBEN	
ML1605	Mining Lease
ML1606	Mining Lease
ML1628	Mining Lease
ML1691	Mining Lease
ML1715	Mining Lease
EL6288	Exploration Licence
EL7073	Exploration Licence
EL7074	Exploration Licence
MPL0315	Mining Purpose Lease
MONASH	
EL6123	Exploration Licence
EL7579	Exploration Licence

TITLE TENEMENT	TENEMENT TYPE
DONALDSON	
ML1461	Mining Lease
ML1555	Mining Lease
ML1618	Mining Lease
ML1653	Mining Lease
ML1703	Mining Lease
MLA0416	Mining Lease Application
EL6964	Exploration Licence
EL5337	Exploration Licence
EL5497	Exploration Licence
EL5498	Exploration Licence
YARRABEE	
MDL160	Mineral Development Licence
ML1770	Mining Lease
ML80049	Mining Lease
ML80050	Mining Lease
ML80096	Mining Lease
ML80104	Mining Lease
ML80172	Mining Lease
ML80195	Mining Lease
ML80196	Mining Lease
ML80197	Mining Lease
ML80198	Mining Lease
EPC1429	Exploration Permit for Coal
EPC1684	Exploration Permit for Coal
EPC621	Exploration Permit for Coal
EPC717	Exploration Permit for Coal
GLOUCESTER BASIN	
A311	Exploration Licence
A315	Exploration Licence
EL6904	Exploration Licence
ML1360	Mining Lease
ML1409	Mining Lease
ML1427	Mining Lease
ML1447	Mining Lease
ML1521	Mining Lease
ML1528	Mining Lease
ML1538	Mining Lease
ML1577	Mining Lease
ML1646	Mining Lease
MLA466	Mining Lease Application
MIDDLEMOUNT	
ML70379	Mining Lease
ML70417	Mining Lease
MDL282	Mineral Development Licence
EPC1225	Exploration Permit for Coal

On an attributable basis Yancoal's group total year end 31st December 2015 position is as follows:

- Measured, Indicated and Inferred Resources are 2,894Mt.[(1) (3)]
- Recoverable Proved and Probable Reserves are 600Mt.[(2) (3)]
- Marketable Proved and Probable Reserves are 432Mt.[(2) (3)]

(1) Coal Resource depletions are only applied upon update of the JORC resource reports, as a result for those reports generated prior to the 31st December 2015, the Coal Resource numbers remain the same as those in the JORC report for the period.

(2) Where required the component Coal Reserve numbers for each site making up this total have been depleted by production from the JORC report date to 31st December 2015.

(3) 2015 Coal Resources and Coal Reserves have been rounded by the Competent Persons in line with the JORC Code 2012 Edition and the Yancoal reporting standards to reflect the relative uncertainty of the estimates.

The following abbreviations are used throughout this report:

AusIMM	Australasian Institute of Mining and Metallurgy
JORC	Joint Ore Reserves Committee
Met	Metallurgical Coal
Mt	Million Tonnes
OC	Open Cut
UG	Underground
SEOC	South East Open Cut

COAL RESOURCES FOR YEAR ENDING 31 DECEMBER 2015

Project	Yancoal Ownership %	Coal Type	Moisture Basis %	Measured Coal Resources (Mt)		Indicated Coal Resources (Mt)		Inferred Coal Resources (Mt)		Total Coal Resources (Mt)	Competent Person #
			2015	2015	2014	2015	2014	2015	2014	2015	2015
Moolarben (OC & UG)	81%	Thermal	6.0%	830	542.3	230	534	200	250	1260	6
Austar (UG)	100%	Met	5.0%	78	78	80	80	70	70	228	5
Ashton (OC & UG)	100%	Semi/ Thermal	6.5%	85	157.2	65	64.7	110	46	260	7
Yarrabee (OC)	100%	PCI/ Thermal	5.5%	100	106	80	82	20	20	200	1
[(2)]Gloucester (OC)	100%	Met/ Thermal	6.0%	13	14.9	190	189	130	124	333	8
[(1)]Middlemount (OC)	50%	Met/ Thermal	5.0%	93	93	34	33.8	3	3	130	10
Donaldson (OC & UG)	100%	Met/ Thermal	4.0%	190	280	400	450	100	90	690	5
Monash (UG)	100%	Met/ Thermal	6.0%			17	17	80	80	97	5
Total Coal Resources (100% Basis)				1389	1271.4	1096	1450.5	713	683	3198	
Yancoal Attributable Share										2894	

OC = Open Cut, UG = Underground

Note: 2015 Coal Resources have been rounded in line with the JORC Code 2012 Edition and the Yancoal reporting standards to reflect the relative uncertainty of the estimates.

Note: All Coal Resources are inclusive of Coal Reserves and are reported on a 100% basis with Yancoal's ownership percent reported for each deposit. The attributable share total is the total Coal Resources when the Yancoal ownership percent is applied.

(1) The Middlemount JORC report was generated in March 2013, as a result no production or other depletions have been applied to the reported Coal Resources.

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

COAL RESOURCE AND RESERVE STATEMENTS

FOR THE YEAR ENDED DECEMBER 2015

COAL RESOURCES RECONCILIATION OF 2015 TO 2014 YEAR END REPORTING

Measured Coal Resources (Mt) – Reconciliation period 1 January 2015 to 31 December 2015

Project	Moolarben (OC & UG)	Austar (UG)	Ashton (OC & UG)	Yarrabee (OC)	Gloucester (OC)	Middlemount (OC)	Donaldson (OC & UG)	Monash (UG)
Production Changes								
Production (since previous JORC Report)	-12.5	-2.21	-5.75	-4.9	-2.75		-3.03	
Non – Production Changes								
Coal sterilised within the mine plan		-0.54	-0.7	-0.1				
Seams/Plies failing eventual economic extraction test	-44.5							
Resource reclassification	342.1	2.5	-67.4				-92.81	
Geology model change		0.6	0.7					
(1)Change due to significant figure rounding (2014 Estimate)		-0.4			0.45		0.27	
Change due to significant figure rounding (2015 Estimate)	2.6		1	-1	0.40		2.31	
Total	**287.7**	**0**	**-72.2**	**-6**	**-1.9**	**0**	**-93.26**	**0**

Indicated Coal Resources (Mt) – Reconciliation period 1 January 2015 to 31 December 2015

Project	Moolarben (OC & UG)	Austar (UG)	Ashton (OC & UG)	Yarrabee (OC)	Gloucester (OC)	Middlemount (OC)	Donaldson (UG)	Monash (UG)
Production Changes								
Production (since previous JORC Report)					-0.21			
Non-Production Changes								
Coal sterilised within the mine plan								
Seams/Plies failing eventual economic extraction test	-77.9							
Resource reclassification	-223.7		1				-51.87	
Geology model change		0.3						
(1)Change due to significant figure rounding (2014 Estimate)	-0.3	-0.3	0.35		0.59		2.2	-0.2
Change due to significant figure rounding (2015 Estimate)	-2.1		-1	-2	0.64	0.2	3.07	0.2
Total	**-304.0**	**0**	**0.35**	**-2**	**1.0**	**0.2**	**-46.6**	**0**

Inferred Coal Resources (Mt) – Reconciliation period 1 January 2015 to 31 December 2015								
Project	Moolarben (OC & UG)	Austar (UG)	Ashton (OC & UG)	Yarrabee (OC)	Gloucester (OC)	Middlemount (OC)	Donaldson (UG)	Monash (UG)
Non-Production Changes								
Coal sterilised within the mine plan								
Seams/Plies failing eventual economic extraction test	-53							
Resource reclassification	15		67				27.02	
Geology model change		-1						
[(1)]Change due to significant figure rounding (2014 Estimate)	-2				0.4			1.2
Change due to significant figure rounding (2015 Estimate)	-10	1	-3.1		5.6		-17.02	-1.2
Total	**-50**	**0**	**63.9**	**0**	**6**	**0**	**10**	**0**

Total Coal Resources (Mt) – Reconciliation period 1 January 2015 to 31 December 2015								
Project	Moolarben (OC & UG)	Austar (UG)	Ashton (OC & UG)	Yarrabee (OC)	Gloucester (OC)	Middlemount (OC)	Donaldson (UG)	Monash (UG)
Yancoal Ownership %	81%	100%	100%	100%	100%	50%	100%	100%
Coal Type	Thermal	Met	Met/Thermal	PCI/Thermal	Met/Thermal	Met/Thermal	Met/Thermal	Met/Thermal
Production Changes								
Measured Resources (Mt)	-12.5	-2.2	-5.8	-4.9	-2.8	0	-3.0	0
Indicated Resources (Mt)	0	0	0	0	-0.2	0	0	0
Non-Production Changes								
Measured Resources (Mt)	300.2	2.2	-66.4	-1.1	0.85	0	-90.2	0
Indicated Resources (Mt)	-304.0	0	0.35	-2	1.2	0.2	-46.6	0
Inferred Resources (Mt)	-50	0	63.9	0	6	0	10.0	0
Totals	**-66.3**	**0**	**-7.9**	**-8**	**5.1**	**0.2**	**-130**	**0**
Total Coal Resource Changes (100% Basis)								**-206.7**
Yancoal Attributable Share								**-194.2**

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

(1) Adjustment required due to rounding being applied to 2014 reported numbers within some of the new 2015 JORC reports that was not applied to the 2014 Annual Report numbers requiring this adjustment to be made to account for this difference.

COAL RESOURCE AND RESERVE STATEMENTS

FOR THE YEAR ENDED DECEMBER 2015

COAL RESERVES FOR YEAR ENDING 31 DECEMBER 2015

			Recoverable Coal Reserve				
			Proved Coal Reserves (Mt)		Probable Coal Reserves (Mt)		Total Coal Reserves (Mt)
Project	Yancoal Ownership %	Coal Type	2015	2014	2015	2014	2015
Moolarben (OC)	81%	Thermal	200	166	23	103	223
Moolarben (UG)	81%	Thermal	60	42.3	14	23	74
Austar (UG)	100%	Met	5	12	44	33	49
Ashton (OC)	100%	Met/Thermal	0	0	15	15	15
Ashton (UG)	100%	Met/Thermal	25	39.1	13	2.4	38
Yarrabee (OC)	100%	PCI/Thermal	36	41.5	8	8.3	44
(1) Gloucester (OC)	100%	Met/Thermal	3.3	5.7	47	47.6	50
(2) Middlemount (OC)	50%	Coking/PCI	61	66	18	18	79
Donaldson (UG)	100%	Met/Thermal	3.9	33	120	97	124
Total Recoverable Coal Reserves (100% Basis) – Rounded			**394**	**406**	**302**	**347**	**696**
Yancoal Attributable Share							**600**

OC = Open Cut, UG = Underground

Note: The 2015 Coal Reserves have been rounded in line with the JORC Code 2012 Edition and the Yancoal reporting standards. Middlemount is the exception as a new report has not been generated for the current year.

Note: All Coal Resources are inclusive of Coal Reserves, Coal Reserves are reported on a 100% basis with Yancoal's ownership percent reported for each deposit. The attributable share total is the total Coal Reserves when the Yancoal ownership percent is applied.

Note: Met = Metallurgical coal.

COAL RESERVES RECONCILIATION OF 2015 TO 2014 YEAR END REPORTING

	Recoverable Coal Reserves (Mt) – Reconciliation period 1 January 2015 to 31 December 2015									
Project	Moolarben (OC)	Moolarben (UG)	Austar (UG)	Ashton (OC)	Ashton (UG)	Yarrabee (OC)	Gloucester (OC)	Middlemount (OC)	Donaldson (UG)	Monash (UG)
Production Changes										
Production (since previous JORC report)	-8.9		-2.3	0	-4.2	-3.1	-2.0	5.5	-3.0	
Moisture basis modified	0.3									
Non-Production Changes										
Coal sterilised or increased recovery in the mine plan	1.8					-0.1				
Geology model changes									-11.5	
Coal Resource reclassification	2.7	1.5			-0.3					
Coal Reserve reclassification									-22.8	
Changes to the Mine plan/ Optimisation	-39.7	6.7	6.8		0.1				30.7	
Change due to significant figure rounding (2015 Estimate)	-2.2	0.5	-0.5		0.9	-2.6	-0.4	0.5	0.6	
Total	**-46**	**8.7**	**4.0**	**0**	**-3.5**	**-5.8**	**-2.3**	**6.0**	**-6.0**	**0**

	Marketable Coal Reserve							
	Moisture Basis %	Proved Coal Reserves (Mt)		Probable Coal Reserves (Mt)		Total Coal Reserves (Mt)	Ash %	Competent Person #
	2015	2015	2014	2015	2014	2015	2015	2015
	10%	157	122.5	16	73	173	23%	4
	9%	60	42.5	14	23.7	74	16%	4
	5%	4.6	10	36	26	40.4	8.0%	3
	8%	0	0	7.8	7.8	7.8	9.5%	3
	8%	13	0	6.3	20.4	19	9.5%	3
	6%	28	32.7	6.4	6.5	34	10%	2
	8%	2.3	0	27	31.7	29.3	15%	9
	10.5% Coking	46	50	13	13.4	59	9.8% Coking	11
	8%	2.9	24	68	64	71	18%	3
		314	**282**	**195**	**267**	**509**		
Yancoal Attributable Share						**432**		

(1) Gloucester entails the Stratford, Duralie and Grant & Chainey deposits.

(2) Middlemount JORC report was generated 1st January 2015, depletions have been applied to the reported Coal Reserves. The project has two product types for Marketable Coal Reserves each with a different Moisture basis, Coking of 10.5% & 9% for PCI and Ash% of 9.8% for Coking & 10.8% for PCI.

Marketable Coal Reserves (Mt) – Reconciliation period 1 January 2015 to 31 December 2015										
Project	Moolarben (OC)	Moolarben (UG)	Austar (UG)	Ashton (OC)	Ashton (UG)	Yarrabee (OC)	Gloucester (OC)	Middlemount (OC)	Donaldson (UG)	Monash (UG)
Production Changes										
Production (since previous JORC report)	-6.7		-1.9	0	-2.0	-2.4	-1.3	-3.8	-2.3	
Product Yield adjustments					0.3				-11.0	
Non-Production Changes										
Coal sterilised or increased recovery in the mine plan	1.2					-0.2				
Geology model changes									-9.1	
Coal Resource reclassification	1.6	1.5			-0.2					
Coal Reserve reclassification									-14.4	
Changes to the Mine plan/ Optimisation	-15.2	6.8	6.2		0.1				19.7	
Change due to significant figure rounding (2015 Estimate)	-3.4	-0.5	-0.3		0.7	-1.6	-0.4	-0.6	-0.1	
Total	-22.5	7.8	4.0	0.0	-1.1	-4.2	-1.7	-4.4	-17.0	0.0

COAL RESOURCE AND RESERVE STATEMENTS

FOR THE YEAR ENDED DECEMBER 2015

Total Coal Reserves (Mt) – Reconciliation period 1 January 2015 to 31 December 2015										
Project	Moolarben (OC)	Moolarben (UG)	Austar (UG)	Ashton (OC)	Ashton (UG)	Yarrabee (OC)	Gloucester (OC)	Middlemount (OC)	Donaldson (UG)	Monash (UG)
Yancoal Ownership %	81%	81%	100%	100%	100%	100%	100%	50%	100%	100%
Coal Type	Thermal	Thermal	Met	Met/ Thermal	Met/ Thermal	PCI/ Thermal	Met/ Thermal	Met/ Thermal	Met/ Thermal	Met/ Thermal
Production Changes										
Recoverable Coal Reserves (Mt)	-8.6	0.0	-2.3	0.0	-4.2	-3.1	-2.0	5.5	-3.0	0.0
Marketable Coal Reserves (Mt)	-6.7	0.0	-1.9	0.0	-1.7	-2.4	-1.3	-3.8	-13.3	0.0
Non-Production Changes										
Recoverable Coal Reserves (Mt)	-37.4	8.7	6.3	0.0	0.7	-2.7	-0.4	0.5	-3.0	0.0
Marketable Coal Reserves (Mt)	-15.8	7.8	5.9	0.0	0.6	-1.8	-0.4	-0.6	-3.7	0.0
Total Changes										
Recoverable Coal Reserves (Mt)	**-46.0**	**8.7**	**4.0**	**0.0**	**-3.5**	**-5.8**	**-2.3**	**6.0**	**-6.0**	**0.0**
Marketable Coal Reserves (Mt)	**-22.5**	**7.8**	**4.0**	**0.0**	**-1.1**	**-4.2**	**-1.7**	**-4.4**	**-17.0**	**0.0**
Total Recoverable Coal Reserve Changes (100% Basis)				**-44.9**	**Total Marketable Coal Reserve Changes (100% Basis)**					**-39.1**
Yancoal Attributable Share				**-40.8**	**Yancoal Attributable Share**					**-34.1**

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

COMPETENT PERSONS FOR 2015 RESOURCE AND RESERVE REPORTING

PROJECT	REPORT TYPE	COMPETENT PERSON (CP)	CP #	TITLE	COMPANY
MOOLARBEN	RESOURCE	Karol Patino	6	Senior Geologist	McElroy Bryan Geological Services Pty
	RESERVE	Jon Barber	4	Principal Consultant	Jon Barber Mining Consultants
AUSTAR	RESOURCE	Rob Dyson	5	Senior Geologist – General Manager Operations	McElroy Bryan Geological Services Pty
	RESERVE	Raymond Howard	3	Principal Mining Engineer	Yancoal Australia Ltd
ASHTON	RESOURCE	Paul Harrison	7	Senior Geologist	McElroy Bryan Geological Services Pty
	RESERVE	Raymond Howard	3	Principal Mining Engineer	Yancoal Australia Ltd
YARRABEE	RESOURCE	Stuart Whyte	1	Superintendent Geology and Exploration	Yarrabee Coal Company Pty Ltd
	RESERVE	Andrew Lau	2	Regional Technical Services Manager – Open Cut Operations Eastern Region	Yarrabee Coal Company Pty Ltd
GLOUCESTER	RESOURCE	Janet Bartolo	8	Senior Geologist – Manager Geological Modelling	McElroy Bryan Geological Services Pty
	RESERVE	Grant Walker	9	Manager – Consulting NSW	XENITH Consulting Pty Ltd
MIDDLEMOUNT	RESOURCE	Greg Jones	10	Principal Consultant	JB Mining Services Pty Ltd
	RESERVE	Mark Bryant	11	Principal Mining Consultant	The Minserve Group Pty Ltd
DONALDSON	RESOURCE	Rob Dyson	5	Senior Geologist – General Manager Operations	McElroy Bryan Geological Services Pty
	RESERVE	Raymond Howard	3	Principal Mining Engineer	Yancoal Australia Ltd
MONASH	RESOURCE	Rob Dyson	5	Senior Geologist – General Manager Operations	McElroy Bryan Geological Services Pty

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors present their report on the consolidated entity ("Yancoal" or "the Group") consisting of Yancoal Australia Ltd ("the Company") and the entities it controlled at the end of, or during, the year ended 31 December 2015.

DIRECTORS

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

Xiyong Li

Cunliang Lai

Baocai Zhang

Yuxiang Wu

Xinghua Ni (resigned on 23 April 2015)

Fuqi Wang (appointed on 23 April 2015)

Gregory Fletcher

Boyun Xu

William Randall

Geoffrey Raby

Vincent O'Rourke

Huaqiao Zhang

SECRETARY

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

REVIEW OF OPERATIONS

Safety

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

An investigation into the cause of the 15 April 2014 Austar underground incident by the Mine Safety Office of the New South Wales Department of Trade and Investment, Regional Infrastructure and Services ("DTIRIS") is ongoing.

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

Financial performance

The loss after income tax for the year ended 31 December 2015 amounted to $291.2 million (31 December 2014: $353.5 million).

The loss for 2015 reflects the continued impacts of low thermal and metallurgical coal prices throughout the reporting period, with opportunities for price improvement increasingly limited by the global market's prolonged oversupply and subsequent impacts of China's National Development and Reform Commission's introduction of new quality coal restrictions for imports into the regions of Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta.

Yancoal responded to the sustained global market headwinds via the maximising of blending opportunities, continued restructure of its underground mines, consolidation of back office and shared services, reduction in operational costs and management of existing take or pay arrangements. Cost reduction strategies continued to be successfully implemented across all sites and major projects, in accordance with Yancoal's long-term business and investment strategy.

Corporate activities

In response to the negative impacts of the continued downturn in the global coal market, Yancoal restructured its Austar and Abel underground mines in New South Wales on 24 July 2015, resulting in redundancies of 170 employees at the Abel mine and 55 employees at the Austar mine.

The restructure included the revision of existing mine plans to accommodate further production improvements and access to economically recoverable reserves via continuous miners at the Austar operation, following the cessation of longwall mining and continuation of the investigation into the underground incident of April 2014.

To date, the restructure has achieved demonstrable operational improvements, cost reductions and enhanced regional marketing opportunities, aided by the successful 2014 implementation of a regional management and reporting structure.

Under the regional operating model, sites continued to share systems and processes, maximise blending and rail opportunities where possible and implement sustainable cost control and operational efficiency improvements, while implementing training to support the core principles of the "Yancoal Way" culture of safety, integrity, excellence, and innovation.

During the second half of 2015, Yancoal transitioned Stratford Duralie from a contractor-operator model to owner-operated instead. The change in operations enabling Yancoal to directly influence and implement significant cost management efficiencies and improved overburden extraction and production rates throughout the second half of the year.

As announced 16 March 2015, Yancoal reached an agreement with the New South Wales Government on behalf of the Moolarben Coal Complex to ensure the conservation of the land tenure and surrounds associated with the natural feature known as 'The Drip' to the satisfaction of the Secretary and the Office of Environment and Heritage. Yancoal agreed to provide The Drip and land surrounding it to the NSW Government for inclusion in the reserve system under the National Parks and Wildlife Act 1974, for no compensation.

Mine production

In accordance with the Company's full year operational guidance of 15.0 to 15.5 million tonnes saleable coal (equity share), Yancoal operations achieved total Run of Mine ("ROM") coal production of 25.4 million tonnes (20.8 million tonnes equity share) for the year (31 December 2014: 26.8 million tonnes) and saleable coal production of 18.6 million tonnes (15.2 million tonnes equity share) for the year (31 December 2014: 19.9 million tonnes), with total coal sales of 22.2 million tonnes (17.8 million tonnes equity share) for the year (31 December 2014: 20.5 million tonnes).

DIRECTORS' REPORT
CONTINUED

Yancoal continued to operate its mines under the new regional operating model established during 2014, sharing services and infrastructure where possible, and operating seven sites across two States. The New South Wales region includes: Moolarben, Austar, Ashton, Stratford Duralie, and Donaldson (consisting of the Abel underground mine). The Queensland region includes: Yarrabee and Middlemount Coal Pty Ltd ("Middlemount"). The Group has a near 50% equity interest in Middlemount.

Improved fleet efficiencies, overburden management, coal handling and processing throughput and adjustment of mine plans, helped offset production interruptions attributable to scheduled longwall moves and difficult geological conditions in the New South Wales underground operations and minor weather impacts at the Queensland open cut operations.

Steady production gains continued to be achieved throughout the year, overcoming significant geological challenges and stoppages within each of the underground operations during the first half of the reporting period, to achieve forecast run rates by the end of year, with all sites implementing improved and sustainable cost controls while maximising yield recoveries and blending to meet customer demand.

Similarly, the Yarrabee open cut operation in Queensland adjusted its processing and blending practices throughout 2015 to meet the requirements of China's National Development and Reform commission's new coal quality restrictions. While Yarrabee's sales into China continue to be affected by the ongoing restrictions, this has been offset by the development of new sales of Yarrabee's ultra-low volatile semi-anthracite, PCI, thermal coals into other markets.

Yancoal's product split (equity share) for the period was 10.2 million tonnes thermal and 7.6 million tonnes metallurgical coal.

New South Wales

New South Wales operations achieved ROM coal production of 16.5 million tonnes (14.8 million tonnes equity share) and saleable coal production of 11.8 million tonnes (10.4 million tonnes equity share) for the year, optimising thermal blending opportunities and sharing rail and port facilities to reduce existing contract commitments where possible.

Ashton mine (Yancoal 100%)

The Ashton underground's return to consistent longwall production in the second half of the year offset early production interruptions during the first half of the year, mostly attributable to continued stoppages caused by difficult geological conditions.

The successful completion of the scheduled longwall move and efficient management of the further narrowing of the block during the second half of the year, enabled the resumption of steady production rates and washplant throughput for the remainder of the reporting period.

The return to consistent longwall production enabled strong gains for the year, with the mine achieving total ROM coal production of 3.0 million tonnes and saleable coal production of 1.38 million tonnes.

As announced on 20 November 2015, the New South Wales Court of Appeal determined to uphold a condition attached to the Ashton South East Open Cut ("SEOC") Project Approval granted by the NSW Land & Environment Court on 27 August 2014. The condition provided that no development work associated with the Project can occur until Ashton Coal Operations Pty Ltd has acquired a privately owned property which forms part of the proposed mining area.

Austar mine (Yancoal 100%)

Minimal development production and continued geological challenges at the Austar underground mine in the first half of the year detrimentally affected production rates.

The scheduled restructure of operations at Austar including the cessation of longwall operations and subsequent introduction of two development production teams in the second half of the year resulted in run rates in accordance with expectations.

A return to consistent production for the second half of the year, resulted in total ROM coal production of 0.82 million tonnes for the period, with saleable coal production of 0.72 million tonnes.

The investigation into the cause of the underground incident of 15 April 2014 by the Mine Safety Office of the New South Wales Department of Trade and Investment, Regional Infrastructure and Services ("DTIRIS") is ongoing.

Moolarben mine (Yancoal 81%)

Improved fleet efficiencies and overburden extraction rates offset operational slow-downs during the first half of the year due to poor weather conditions, with Moolarben continuing to deliver strict cost controls and refining its high ash thermal coal strategy throughout the reporting period.

Operational efficiencies and tight production controls simultaneously benefitted from the opening of the Modification 9 area (approved in June 2014) during the second half of the year, enabling access to an additional 30 million tonnes of ROM coal over the life of the mine.

Moolarben also achieved increased throughput controls throughout the reporting period, maximising improved and sustainable run rates at the coal handling and preparation plant.

Consistent productivity gains and yield improvements resulted in total ROM production of 9.0 million tonnes (7.22 million tonnes equity share) and total saleable coal production of 6.9 million tonnes (5.54 million tonnes equity share).

As announced 2 February 2015, the New South Wales Planning and Assessment Commission ("NSWPAC") approved the Moolarben Stage Two expansion application. Once fully developed the integrated Moolarben Coal Complex (Stage 1 and Stage 2 combined) will produce up to 17 million tonnes of ROM coal per annum for a period of 24 years.

As announced 3 September and 14 September 2015 respectively, the NSW Department of Industry Resources and Energy granted the mining lease and mining operations plan for the Moolarben Stage Two Project.

Stratford and Duralie mines (Yancoal 100%)

Stratford Duralie produced total ROM of 1.85 million tonnes and 1.43 million tonnes of saleable coal for 2015, with the operation transitioning from contractor-operated to owner-operated during the second half of the year. The changeover in management and contractual control facilitating cost management efficiencies and production rate improvements.

Stratford Duralie remained focused on lowering costs and increasing productivity improvements throughout the year, achieving total annual production in line with expectations, following the cessation of mining activities at the Stratford mine in 2014 and subsequent move to a single operating pit at Duralie during 2015.

As announced 1 June 2015, the NSWPAC approved the Stratford extension application. The proposed Stratford extension project has the potential to extract up to 21.5 million tonnes of ROM coal over 11 years at a rate of up to 2.6 million tonnes per annum.

Rehabilitation of the Stratford mine continued throughout 2015 in accordance with all legislative requirements, with the Stratford Coal Handling and Preparation Plant continuing to process Duralie coal.

Donaldson mine (Yancoal 100%)

Having encountered a series of geological challenges in the main workings during the first half of the year, and difficult underground mining conditions adversely affecting production in the development area, Donaldson's Abel underground mine produced a total 1.81 million tonnes of ROM coal and 1.33 million tonnes of saleable coal for 2015.

Abel's production for the second half of the year was in accordance with expectations, following the restructure of the operation in July and subsequent reduction in employee numbers and mining operations, moving from the use of three extractors to one and from five developers to two.

Queensland

Yarrabee mine (Yancoal 100%)

Yarrabee maintained strong and consistent production rates throughout the reporting period, maximising extraction and maintenance processes and Coal Handling and Processing Plant throughput to deliver total ROM of 3.36 million tonnes and 2.81 million tonnes of saleable coal for 2015.

Yarrabee production was in line with targets, having adjusted its mining processes to assist in meeting the requirements of China's new import coal quality specifications throughout the reporting period. Yarrabee continued to advance its product mix to expand sales into Japan and Korea and develop new markets outside of China. Significant fleet management improvements offsetting minor interruptions to the extraction schedule due to wet weather in the first half of the year.

Annual total production results were in accordance with expectations, following a voluntary two week shutdown and subsequent ongoing reduction in shift hours to assist in the achievement of required operational cost savings.

Middlemount mine (Yancoal ~50%)

Sustained strong production throughout the majority of the 2015, offset a scheduled reduction in production at the end of the year, with consistent fleet, extraction and processing efficiencies throughout the reporting period achieving total annual ROM coal production of 5.53 million tonnes (2.77 million tonnes equity share) and 4.01 million tonnes saleable coal (2.01 million tonnes equity share).

Infrastructure

Newcastle Infrastructure Group ("NCIG") Coal Terminal (Yancoal 27%)

Yancoal continues to be one of five company shareholders involved in the $2.5 billion NCIG export coal terminal in Newcastle, New South Wales. Yancoal has a 27 percent ownership with an allocation of approximately 14.6 million tonnes per annum (100% basis). The Moolarben Coal mine is the largest of Yancoal's Hunter based mines to use the terminal.

Port Waratah Coal Services ("PWCS")

Yancoal has take or pay contracts with PWCS for the export of coal through the terminals at Newcastle, with a port allocation of approximately 12 million tonnes (100% basis).

Wiggins Island Coal Export Terminal ("WICET") (Yancoal 5.6%)

Yancoal is one of seven owners of Stage One of the WICET project, which will have a scheduled capacity of 27 million tonnes per annum on completion. Yancoal's share of Stage One will be 1.5 million tonnes per annum, allocated to the Yarrabee Mine.

Community and Environment

Yancoal is committed to operating its mines to the highest environmental standards in accordance with all legislative requirements.

Each mine has actively implemented and continues to update its environmental management systems and practices including the rehabilitation of all sites as part of its life of mine plans and licence to operate.

The Company is obliged to report on its environmental management performance to the respective authorities in each state and Yancoal continues to work with the various Government departments to ensure full transparency in its environmental reporting.

Yancoal also remains committed to making a significant positive difference within the communities in which it operates via the provision of employment opportunities and engagement of local contractors and service providers where possible.

Through its robust Community Support Initiative at each mine site, Yancoal continues to financially invest in local and regional health, environmental, educational and sporting initiatives. In 2015, Yancoal invested more than $417,000 into community based initiatives.

Yancoal takes its responsibility for engaging transparently and co-operatively with its community stakeholders very seriously, relying upon community consultative committees, local newsletters, local media, community days and site-specific websites to keep the community informed.

DIRECTORS' REPORT
CONTINUED

ENVIRONMENTAL REGULATION

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

GREENHOUSE GAS AND ENERGY DATA REPORTING REQUIREMENTS

The National Greenhouse and Energy Reporting Act 2007 ("NGER") requires Yancoal to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2014/2015 report to the Greenhouse and Energy Data Officer on 2 November 2015.

ENERGY EFFICIENCY REPORTING REQUIREMENTS

The Energy Efficiency Opportunities Act 2006 required 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. This Act was repealed effective 30 June 2014. However, the Group continues to investigate and implement energy efficiency opportunities, and to share initiatives between sites.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to the reporting period, in January 2016, the Company announced the establishment of Yancoal Mining Services as a fully-owned subsidiary of Yancoal Australia Ltd to assist in managing the Eastern Region underground mines of Ashton, Austar and Donaldson as a single operation. The Regional model has been implemented to allow the business to more effectively and efficiently manage costs across the underground as well as share the skills and experience of its people across operations.

As announced on 17 February 2016, the raising of US$950 million in new debt funding through an issue of nine-year secured debt bonds to a consortium of financiers comprising BOCI Financial Products Limited, Bohai Harvest RST (Shanghai) Equity Investment Fund Management Co. Ltd. and Industrial Bank Co. Ltd.

The bonds will be issued in two tranches of US$760 million (tranche 1) and US$190 million (tranche 2) by a newly established wholly owned subsidiary (Issuer) of Yancoal Australia Ltd. Yancoal's interest in the New South Wales mining assets of Ashton, Austar and Donaldson (Assets) will be transferred to and held by the Issuer.

In accordance with the Terms of Issue of the Subordinated Capital Notes issued by Yancoal SCN Limited, in December 2014, the next distribution payment date for the SCNs occurred on 29 January 2016. The distribution was paid at a rate of 7% per annum or US$3.49 per SCN. The total amount distributed was US$62.8 million.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Guidance for saleable production in 2016 is 13.0 million tonnes (equity share). Forecast for 2016 capital expenditure is around $350 million (equity share).

The investigation into the cause of the Austar underground incident by the Mine Safety Office of the New South Wales DTIRIS is ongoing. An end date for the investigation has not been announced.

INFORMATION ON DIRECTORS

Xiyong Li.

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

Experience and expertise

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

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

Other current key directorships

Chairman of Yanzhou Coal Mining Company Limited

Director, General Manager, and the Deputy Secretary of the Party Committee of Yankuang Group

Chairman of Yancoal International (Holding) Co., Ltd

Director of Yancoal International (Sydney) Pty Ltd

Former directorships in last three years

None

Special responsibilities

Chairman of the Board

Chairman of the Nomination and Remuneration Committee

Interests in shares and options

None

Cunliang Lai.

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

Experience and expertise

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

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

Other current key directorships

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

Director of Bauxite Resources Limited

Former directorships in last three years

None

Special responsibilities

Co-Vice Chairman of the Board

Member of Nomination and Remuneration Committee

Interests in shares and options

None

Baocai Zhang.

Co-Vice Chairman (20 December 2013 – Current), Executive Director (20 January 2014 – Current). EMBA.

Experience and expertise

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

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

Other current key directorships

Director of Yankuang Group Company Limited

Director of Yanzhou Coal Mining Company Limited

Director of Yanzhou Coal Yulin Neng Hua Co., Ltd

Director of Inner Mongolia Haosheng Coal Mining Limited

Chairman of the Supervisory Committee of Shanxi Energy Chemical Corp. Ltd

Director of Yancoal International (Holding) Co., Ltd

Director of Yancoal SCN Limited

Former directorships in last three years

None

Special responsibilities

Co-Vice Chairman of the Board (appointed on 20 December 2013)

Chairman of the Executive Committee

Chairman of the Strategy and Development Committee

Interests in shares and options

1,162,790 fully paid Yancoal ordinary shares

Yuxiang Wu.

Non-Executive Director (18 November 2004 – Current). MACC.

Experience and expertise

Mr Wu joined Yanzhou's predecessor in 1981. Mr Wu was appointed as the Head of the Planning and Finance department of Yanzhou in 1997, and was appointed as the Chief Financial Officer and a Director of Yanzhou in 2002. In 2012, Mr Wu was appointed a Director of Yancoal. He has considerable experience in financial management and business development in the coal industry. He also has extensive experience in organisational accounting, financial control, capital management, risk management and corporate compliance for Yanzhou and Yancoal.

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

Other current key directorships

Director of Yanzhou Coal Mining Company Limited

Director of Yanmei Heze Neng Hua Co., Ltd

Director of Yanzhou Coal Shanxi Neng Hua Company Limited

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

Director of Yancoal International (Holding) Co., Ltd

Director of Yancoal International (Sydney) Pty Ltd

Director of Yancoal SCN Limited

Former directorships in last three years

None

Special responsibilities

Member of Strategy and Development Committee

Member of Audit and Risk Management Committee

Interests in shares and options

None

DIRECTORS' REPORT
CONTINUED

Xinghua Ni.
Non-Executive Director (retired on 23 April 2015). M.Eng.

Experience and expertise
Mr Ni joined Yanzhou's predecessor in 1975 and became the Deputy Chief Engineer of Yankuang Group Company Limited in 2000. He was appointed as Chief Engineer of Yanzhou in 2002. In 2012, Mr Ni was appointed a Director of Yancoal. He has considerable experience in coal mining technology.

Mr Ni graduated from Tianjin University. He is a researcher in engineering technology application with a Masters degree.

Other current key directorships
Director of Shanxi Future Energy Chemical Corp. Ltd

Former directorships in last three years
None

Special responsibilities
Member of Strategy and Development Committee

Member of Health, Safety and Environment Committee

Interests in shares and options
None

Boyun Xu.
Executive Director (26 June 2012). ME, EMBA.

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

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

Other current key directorships
Director of Premier Coal Limited

Director of Yancoal International (Sydney) Pty Ltd

Director of Yancoal SCN Limited

Director of Yankuang Bauxite Resources Pty Ltd

Former directorships in last three years
None

Special responsibilities
Member of the Executive Committee

Interests in shares and options
None

William Randall.
Non-Executive Director (26 June 2012). BBus.

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

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

Other current key directorships
Director of Noble Group Limited

Alternate Director of Cockatoo Coal Limited

Former directorships in last three years
Director of Gloucester Coal Ltd

Director of Blackwood Corporation Limited

Alternate Director of East Energy Resources Limited

Director of Territory Resources Limited

Special responsibilities
Member of Nomination and Remuneration Committee.

Interests in shares and options
None

Gregory Fletcher.
Non-Executive Director (26 June 2012). BCom, CA.

Experience and expertise
Mr Fletcher was a Director of Gloucester Coal Ltd from June 2009. He was appointed a Director of Yancoal after the merger of Yancoal and Gloucester Coal Ltd in June 2012. Previously, Mr Fletcher was a senior partner with a Big 4 Accounting Firm where he specialised in external and internal audits and risk management. He provided professional services to some of Australia's largest listed corporations. Since 2009 Mr Fletcher has taken on Board and Audit Committee roles.

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

Other current key directorships
Chairman of SMEG Australia Pty Ltd

Director of Yancoal SCN Limited

Director of Saunders International Limited

Chair, Audit and Risk Committee, Roads & Maritime Services

Member of Audit and Risk Committee, Railycorp

Member of NSW Auditor General's Audit and Risk Committee

Member of Audit, Risk and Compliance Committee, Sydney Olympic Park Authority

Former directorships in last three years
Director of WDS Limited (until 3 November 2015)

Special responsibilities
Member of Audit and Risk Management Committee

Chairman of the Independent Board Committee

Interests in shares and options
1,000 fully paid Yancoal ordinary shares.

24 subordinated capital notes issued by Yancoal SCN Limited.

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

Experience and expertise
Dr Geoffrey Raby was appointed a Director of Yancoal in 2012. He was Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (**DFAT**). Dr Raby has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998–2001), Australia's APEC Ambassador (2003–2005), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex officio member of the Boards of Austrade and Export Finance and Insurance Corporation (**EFIC**).

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

Other current key directorships
Director of Fortescue Metals Group Limited

Director of Oceana Gold Corporation Limited

Chairman of SmartTrans Holding Limited

Director of iSentia Group Ltd

Director of YPB Group Ltd

Former directorships in last three years
None

Special responsibilities
Member of Audit and Risk Management Committee

Member of Health, Safety and Environment Committee

Interests in shares and options
None

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

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

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

Other current key directorships
Chairman of Rail Innovation Australia Pty Ltd

Deputy Chairman of Mater Health Services Brisbane Limited

Director of White Energy Company Limited

Director of Premier Coal Limited

Director of Yancoal SCN Limited

Former directorships in last three years
Chairman of the Queensland Workplace Health and Safety Board

Director of Bradken Limited

Special responsibilities
Chairman of Health, Safety and Environment Committee

Interests in shares and options
250,000 fully paid Yancoal ordinary shares

DIRECTORS' REPORT
CONTINUED

Huaqiao Zhang.
Non-Executive Director (17 April 2014 – Current). MEc.

Experience and expertise
Mr Zhang is a Hong Kong based businessman and has over 22 years of experience in the banking and finance industry, with extensive experience in the capital markets of Hong Kong and China.

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

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

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

Other current key directorships
Chairman of China Smartpay Group Holdings Ltd (8325 HK)

Independent Non-Executive Director of Fosun International Ltd (656 HK)

Independent Non-Executive Director of Logan Property Holdings Co. Ltd (3380 HK)

Independent Non-Executive Director of Luye Pharma Group Ltd (2186 HK)

Independent Non-Executive Director of Wanda Hotel Development Co. Ltd (0169 HK)

Independent Non-Executive Director of China Huirong Financial Holdings Ltd (1290 HK)

Independent Non-Executive Director of Zhong An Real Estate Ltd (672 HK)

Independent Non-Executive Director of Sinopec Oil Services Corp (1033 HK)

Non-Executive Director of Boer Power Holdings Ltd (1685 HK)

Former directorships in last three years
Independent director of Ernest Borel Holdings Ltd (1856 HK)

Director of Nanjing Central Emporium (600280 CH)

Special responsibilities
Member of Strategy and Development Committee

Interests in shares and options
None

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

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

Mr Wang joined Yanzhou's predecessor in 1985. In 2000, he was appointed as the Chief Engineer of Production and Technology Division of Yankuang Group. In 2002, he served as the director of Production and Technique Department of Yanzhou. In 2003, he was appointed as the Deputy Chief Engineer and Director of Production and Technique Department of Yanzhou. In March 2004, he was appointed as the Chief Engineer of Yanzhou. Mr Wang graduated from Northeastern University and Nankai University.

Other current key directorships
Yanmei Heze Neng Hua Co., Ltd

Former directorships in last three years
None

Special responsibilities
Member of Health, Safety and Environment Committee (appointed on 23 April 2015) Member of Strategy and Development Committee (appointed on 23 April 2015)

Interests in shares and options
None

COMPANY SECRETARY

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

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

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 31 December 2015, and the numbers of meetings attended by each Director were:

			Meetings of Committees									
	Full meetings of Directors		Audit and Risk Management		Health, Safety and Environment		Nomination and Remuneration		Strategy and Development		Independent Board Committee*	
	A	B	A	B	A	B	A	B	A	B	A	B
Xiyong Li	6	6					1	1				
Cunliang Lai	6	6					1	1				
Baocai Zhang	6	6							1	1		
Yuxiang Wu	6	6	4	5					1	1		
Xinghua Ni	5	5			2	3						
Boyun Xu	6	6										
William Randall	6	6					1	1				
Gregory Fletcher	6	6	5	5							5	5
Geoffrey Raby	4	6	5	5	4	4					5	5
Vincent O'Rourke	5	6			4	4					5	5
Huaqiao Zhang	3	6									1	2
James MacKenzie	1	1			1	1			1	1		

A = Number of meetings attended

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

* The Independent Board Committee was constituted five times under different protocols for the purpose of considering related party transactions with the Company's major shareholder, Yanzhou.

REMUNERATION REPORT – AUDITED

Dear Shareholder,

I am pleased to be able to present to you the Yancoal Australia Ltd (the "Company") and its controlled entities (the "Group") 2015 Remuneration Report.

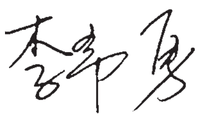
Over 2015, the Nomination and Remuneration Committee continued to review the Company's remuneration framework to ensure remuneration arrangements were in line with sound corporate governance for an Australian listed company and for a Company of its size.

Key principles of the Committee's focus over 2015 were to:

- Ensure the Company's remuneration structures were equitable and aligned with the long-term interests of the Company and its stakeholders, and having regard to relevant Company policies.
- Provide market competitive remuneration and conditions which support the attraction and retention of skilled and motivated employees.
- Structure short and long-term incentives that are challenging and aligned to the creation of sustainable returns, and the achievement of company strategy, objectives and performance.
- Differentiate reward based on performance, in particular acknowledging the contribution of outstanding performers.

This report sets out remuneration information for the Company's Key Management Personnel for the 12 months ended 31 December 2015.

Yours sincerely,



Xiyong Li

Chairman of the Board,

Chair of the Nomination and Remuneration Committee

DIRECTORS' REPORT
CONTINUED

Contents

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

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

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

TABLE 1: Details of Key Management Personnel

Name	Position	Period of time in role
Non-Executive Directors		
Xiyong Li	Director, Chairman of the Board Chairman of the Nomination and Remuneration Committee	Full year
Cunliang Lai	Director, Co-Vice Chairman Chairman of Strategy and Development Committee Member of the Nomination and Remuneration Committee	Full year
Yuxiang Wu	Director Member of the Audit and Risk Management Committee Member of the Strategy and Development Committee	Full year
Xinghua Ni	Director Member of the Health, Safety and Environment Committee Member of the Strategy and Development Committee	Up to 23 April 2015
Fugi Wang	Director Member of the Health, Safety and Environment Committee Member of the Strategy and Development Committee	From 23 April 2015
William Randall	Independent Director and Member of the Nomination and Remuneration Committee	Full year
Gregory Fletcher	Independent Director Chairman of the Audit and Risk Management Committee	Full year
Geoffrey Raby	Independent Director Member of the Audit and Risk Management Committee Member of the Health, Safety and Environment Committee	Full year
Vincent O'Rourke	Independent Director Chairman of the Health, Safety and Environment Committee	Full year
Huaqiao Zhang	Independent Director Member of the Strategy and Development Committee	Full year
Executive Directors		
Baocai Zhang	Director, Co-Vice Chairman of the Board Chair of the Strategy and Development Committee Chair of the Executive Committee ("CEC")	Full year
Boyun Xu	Executive Director Executive General Manager – Australian subsidiaries of Yancoal International (Holding) Co. Ltd Member of the Executive Committee	Full year

Name	Position	Period of time in role
Senior Executives		
Reinhold Schmidt	Chief Executive Officer ("CEO")	Full year
Lei Zhang	Chief Financial Officer ("CFO")	Full year
Former Senior Executives		
Cunliang Lai	Former Chairman of Executive Committee	From 1 January 2014 to 20 January 2014
Peter Barton	Former Chief Operating Officer	Chief Operating Officer – ceased employment 30 June 2014
Michael Wells	Acting Chief Financial Officer	Acting Chief Financial Officer from 31 May 2013 to 31 March 2014
Michael Dingwall	Former Chief Marketing Officer	Chief Marketing Officer – ceased employment 31 January 2014
Former Non-Executive Directors		
James MacKenzie	Independent Director Co-Vice Chairman Member of the Strategy and Development Committee	Up to 11 April 2014

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

2. Remuneration principles and framework

The Company's governing principles for remuneration are:

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

2.1 Remuneration governance framework

Consistent with its Board Charter, the Board oversees the appointment, remuneration and performance of all Key Management Personnel ("KMP") other than Directors. On these issues, the Board receives recommendations from the Nomination and Remuneration Committee.

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

– Board composition and succession planning;
– remuneration levels and structure for KMP;
– the public reporting of remuneration for KMP;
– the performance assessment of the Executive Committee;
– designing Company remuneration policy and regulations with regard to corporate governance; and
– diversity.

It had been intended to review the Long-Term Incentive Plan ("LTIP") during 2015, however due to more pressing priorities the review has been postponed until 2016. As Yancoal stabilises and develops a sustainable business model to be a major and competitive force in the mining sector in Australia it will be important to consider an appropriate employee long-term incentive scheme for the Company. It is well recognised that long-term incentive schemes for employees of the Company can drive long-term positive value for the Shareholders. Having a LTIP for employees tends to lead to better overall performance by the Company which in turn incentivises all employees of the Company.

We intend to explore and develop an appropriate LTIP proposal for Senior Yancoal Employees for consideration of the Board. This will be proposed via the Nomination and Remuneration Committee in 2016.

DIRECTORS' REPORT
CONTINUED

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

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

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

Details of remuneration for all Executives are set out in Table 11 (See Section 6: Remuneration tables).

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

TABLE 2: Executive remuneration structure

Fixed remuneration	– Fixed Annual Remuneration (FAR), including cash salary, superannuation, and may include car allowance; and – Other benefits (see Section 3.4).
Variable remuneration ("at risk")	– Short-term Incentive (see Section 3.5.1), – Special Incentive Scheme (see Section 3.5.1), and – Long-term Incentive (see Section 3.5.3).

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

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

	Fixed Remuneration (excl. benefits)[A]		At risk – Short-Term Incentive Plan[B]		At risk – Long-Term Incentive Plan[C]		At risk – Special Incentive Scheme[D]	
NAME	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Reinhold Schmidt	28%	32%	30%	32%	31%	36%	11%	n/a
Lei Zhang	52%	65%	21%	26%	5%	9%	20%	n/a
Baocai Zhang	47%	44%	35%	56%	n/a	n/a	18%	n/a

Boyun Xu is an Executive Director of Yancoal, however his executive role relates to Yancoal International (Holding) Co. Ltd ("YIH"). Mr Xu's compensation is paid for by YIH and as such he is not considered a senior executive of Yancoal.

A Calculations for fixed remuneration entitlement exclude the value of benefits, see table 3.4 and table 11.

B The short-term variable remuneration entitlement is determined pursuant to the Short-Term Incentive Plan (outlined in section 3.5.1).

C The Long-Term Incentive Plan is outlined in section 3.5.3.

D The Special Incentive Scheme is outlined in section 3.5.2

3.4 Fixed Remuneration

Fixed remuneration comprises cash salary, superannuation and other benefits. In recognition of the Company's financial performance, no fixed remuneration increases were awarded in 2015.

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

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

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

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

3.5 Variable remuneration

Variable remuneration is delivered through participation in the Short-Term Incentive ("STI") Plan (as outlined in section 3.5.2) and a Special Incentive Scheme (as outlined in section 3.5.1). Certain Executives are also eligible to participate in a Long-Term Incentive ("LTI") Plan (as outlined in section 3.5.3).

3.5.1 Short-Term Incentive ("STI") Plan

Eligibility

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

Objective

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

Structure

For 2015 the STI Plan comprised three key components:

1. **STI opportunity** – this is expressed as a percentage of the Executive's FAR. The STI opportunity is reviewed annually. A benchmarking exercise is completed against comparable peers in listed companies, and no changes were proposed for 2015. The CEO has an agreed STI opportunity of between a minimum of 75% and a maximum of 126% of FAR for 2015. The Board believes this level of STI opportunity is reasonable and competitive for the current environment.
2. **STI Scorecard** – this consists of a number of Key Performance Indicators ("**KPIs**"). For the Executives named in this report, all KPIs are measured at the Company level. The KPIs fall into the following categories TRIFR (Total Recordable Injury Frequency Rate) (20% weighting), Environment (10% weighting), FOR (Free On Rail) Cash Costs (35% weighting), Profitability (20% weighting) and Specific Business Unit Measures (15%).) Details of how the STI Scorecard is evaluated are set out below. STI scorecard performance is assessed by the Chairman of the Executive Committee and the Chief Executive Officer, reviewed by the Nomination and Remuneration Committee, and approved by the Board
3. **Individual Performance** – this is measured by Key Result Areas ("**KRA**"). These KRAs are aligned to the Executive's role and include areas such as special projects, achievement of OPEX and CAPEX budgets, and achievement of growth/ continuous improvement initiatives. Based on performance against the KRAs, the Executive receives a performance rating at the end of the year on a scale from Exceptional to Below Standard. In the case of the Chief Executive Officer, individual performance is assessed by the Nomination and Remuneration Committee, to be endorsed by the Board. For all other Executive's, performance is assessed by the Chief Executive Officer and the Chair of the Executive Committee.

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

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

DIRECTORS' REPORT
CONTINUED

Further detail on the STI Scorecard – 2015

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

2015 STI outcome

STI outcomes are calculated by multiplying the target STI opportunity by the STI Scorecard payout multiplier and the Individual Performance payout multiplier.

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

TABLE 4: Company Performance against STI Scorecard in 2015

STI scorecard category	STI Scorecard	STI Weighting	Actual performance against KPI
Profitability	Profit Before Tax (PBT)	20%	114%
	FOR Cash Costs	35%	110%
HSE	TRIFR (Total recordable injury frequency rate)	20%	98%
	Environment	10%	0%
Business Unit measures	Two business unit measures customised to each Executive's role	15%	107%

The assessed outcomes and average achievement for the company of 114.3% reflects the following achievements in 2015:

a) the overall delivery of Profit Before Tax for the Group and the assets managed on behalf of Yancoal International Holdings ("YIH") of $56M ahead of budget, and

b) sizable reductions in the key measure of FOR Cash Cost per ton across most sites; and

c) the average achievement of 106% for each Business Unit measure; and

Environment measures include environmental complaints and incidents.

3.5.2 Special Incentive Scheme

Eligibility

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

Objective

The Special Incentive Scheme for 2015:

- intended to focus key eligible employees on generating savings and value added efficiency/profit improvements, then sharing those savings and value added efficiency/profit improvements "generated as a result of decisions made by the eligible employees between the Company and eligible employees, based on agreed percentages";
- subject to a "profit gate" – where any saving sharing:
  - would only occur if the agreed budgeted loss before tax of the Group and YIH is bettered; and
  - the value of any savings to be shared will be limited to the amount that the actual profit/loss is better than the budgeted loss before tax.

Application Frequency

On the basis of the approved scheme, savings will be shared amongst the eligible employees of the business. This will be distributed to employees via three tranches; one third in Year 1, one third in Year 2 and one third in Year 3.

TABLE 5: Details of the Special Incentive Scheme applicable to KMP.

CEC Special Incentive Scheme	2015
Amount Awarded	**$123,200**
Tranche Year	
2015	$41,067
2016	$41,067
2017	$41,066

CEO Special Incentive Scheme	2015
Amount Awarded	**$452,890**
Tranche Year	
2015	$150,963
2016	$150,963
2017	$150,964

CFO Special Incentive Scheme	2015
Amount Awarded	**$120,000**
Tranche Year	
2015	$40,000
2016	$40,000
2017	$40,000

3.5.3 Long-Term Incentive (LTI) Plan

The key characteristics of the LTI plan are outlined below.

TABLE 6: LTI operation

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

DIRECTORS' REPORT
CONTINUED

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

CEC[A] LTIP	2014	2015
Amount Awarded	Not applicable	Not applicable
% of maximum Achieved	Not applicable	Not applicable
Tranche Year		
2017	Not applicable	Not applicable
2018	Not applicable	Not applicable
2019	Not applicable	Not applicable
2020	Not applicable	Not applicable

CEO[B] LTIP	2013	2014	2015
Amount Awarded	**$119,322**	**$1,271,266**	**$1,266,158**
% of maximum Achieved	**100%**	**110%**	**110%**
Tranche Year			
2017	$39,774	$423,755	Not applicable
2018	$39,774	$423,755	$422,052
2019	$39,774	$423,755	$422,052
2020	Not applicable	Not applicable	$422,052

CFO[C] LTIP	2014	2015
Amount Awarded	**$31,780**	**$45,000**
% of maximum Achieved	**100%**	**100%**
Tranche Year		
2017	$10,593	Not applicable
2018	$10,593	$15,000
2019	$10,593	$15,000
2020	Not applicable	$15,000

A Chair of the Executive Committee – Baocai Zhang.
B Chief Executive Officer – Reinhold Schmidt.
C Chief Financial Officer – Lei Zhang.

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

The Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions from dealing under such plans. There are also restrictions regarding margin lending arrangements, hedging and short-term trading of the Company's securities. A copy of the Share Trading Policy is available in the Corporate Governance section of the Company's website.

3.7 Linking Executive remuneration to Company performance

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

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

TABLE 8: Yancoal's performance since listing ($)

	31 December 2015	31 December 2014	31 December 2013	31 December 2012
PBT	(353.8M)	(270.9M)	(1,114.5M)	125.5M
Basic EPS	(0.29)	(0.36)	(0.84)	0.42
Closing share price	0.10	0.16	0.76	1.00
Ordinary dividend per share	–	–	–	–

4. Service Agreements

For Non-Executive Directors, the terms and conditions of their appointment are outlined in a letter of appointment.

For Executives, the terms and conditions of their employment are outlined in their Executive Service Agreement with the Company ("ESA").

TABLE 9: Certain ESA terms for each of the Senior Executives

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

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

B Notice period applicable if the Senior Executive resigns.

C Notice period applicable if the Company terminates the Senior Executive.

DIRECTORS' REPORT
CONTINUED

5. Non-Executive Director fees

Objective

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

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

Structure

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

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

The total Board and Committee fees paid by the Company to Non-Executive Directors in 2015, excluding payments for extra services outlined below, was $645,984 which is $2,854,016 below the current aggregate cap of $3,500,000 per annum.

During 2015, Non-Executive Directors were remunerated by way of fixed fees in the form of cash and superannuation (to the maximum superannuation guarantee cap). There has been no change to the Board and Committee fees from 2014 to 2015. No equity instruments were issued to Non-Executive Directors over 2015 and no element of the Non-Executive Director fees are linked to performance.

Neither Board nor Committee fees were paid to nominee Directors of Yanzhou (Xiyong Li, Weimin Li, Yuxiang Wu, Xinghua Ni (up to 23 April 2015), Fuqi Wang (from 23 April 2015) and Baocai Zhang) as the responsibilities of Board or Committee membership were considered part of their role and remuneration arrangements with their nominating company. William Randall is not paid any Board or Committee fees.

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

TABLE 10: Board and Committee fees

	2015 $
Board Fees per annum (including any superannuation)	
Chairman of the Board	Not applicable
Co-Vice Chairman of the Board	115,000[A]
Director	150,000
Committee Fees per annum (including any superannuation)	
Audit and Risk Management Committee – Chair	30,000
Audit and Risk Management Committee – member	15,000
Health, Safety and Environment Committee – Chair	30,000
Health, Safety and Environment Committee – member	15,000
Nomination and Remuneration Committee – Chair	Not applicable
Nomination and Remuneration Committee – member	Not applicable
Strategy and Development Committee – Chair	Not applicable
Strategy and Development Committee – member	15,000

A Not paid to Yanzhou appointed Co-Vice Chairman

Transaction specific remuneration

In 2015 the Company made total payments of $45,750 ($200,109 in 2014) for the extra services provided by the Non-Executive Directors Gregory Fletcher, Geoffrey Raby, Huaqiao Zhang and Vincent O'Rourke for their contribution to undertake investigations and discussion on behalf of the Company to: consider various possible transactions to improve Yancoal Australia's debt to equity ratio and, following their review and consequent recommendation to proceed with the pro-rata renounceable issue of up to US$2.3 billion of Subordinated Capital Notes (SCNs), to oversee the SCN issue.

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

6. Remuneration tables

Table 11 sets out the details of remuneration earned by Executives, calculated in accordance with applicable Accounting Standards.

Table 12 sets out details of STI awards and cash bonuses granted to Executives in 2015 and 2014.

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

TABLE 11: Details of Senior Executives' Remuneration earned in 2015

		Short-Term Benefits				Long-Term Benefits				
Name		Cash Salary	STI or bonus	Non-monetary benefits[A]	Other short-term employee benefits	Super-annuation benefits	Long Service Leave	LTI oppor-tunity	Special Incentive Scheme	Total (including other fees)
Lei Zhang[B]	**2015**	**301,641**	**127,723**	**16,164**	**30,000**	**19,308**	**1,252**	**45,000**	**120,000**	**661,088**
	2014	244,057	131,400	22,627	Nil	13,835	184	31,780	Nil	443,883
Baocai Zhang	**2015**	**315,726**	**245,481**	**24,804**	**119,386**	**19,308**	**1,152**	**Nil**	**123,200**	**849,057**
	2014	296,653	252,945	2,851	Nil	22,103	135	Nil	Nil	574,687
Reinhold Schmidt	**2015**	**1,131,745**	**1,208,605**	**143,145**	**Nil**	**19,308**	**9,503**	**1,266,158**	**452,890**	**4,231,354**
	2014	1,137,417	1,155,696	169,881	Nil	18,279	3,276	1,271,266	Nil	3,755,815
Total	**2015**	**1,749,112**	**1,581,809**	**184,113**	**149,386**	**57,924**	**11,907**	**1,311,158**	**696,090**	**5,741,499**
	2014	1,678,127	1,540,041	195,359	–	54,217	3,595	1,303,046	–	4,774,385
Former Senior Executives										
Peter Barton[C]	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	1,411,339	56,571	27,795	Nil	8,887	Nil	290,765	Nil	1,795,357
Michael Dingwall[D]	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	906,164	11,552	545	Nil	4,444	Nil	Nil	Nil	922,705
Cunliang Lai[E]	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	34,954	Nil	2,345		10,574	18,004	n/a	Nil	65,877
Michael Wells[F]	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	95,196	Nil	17,107	Nil	4,444	8,747	Nil	Nil	125,494
Total	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	2,447,653	68,123	47,792	Nil	28,349	26,751	290,765	Nil	2,909,433

The amount included above has been updated from those presented in the 2014 remuneration report where amounts reported differed to actual amounts paid during 2015

A Non-monetary benefits include the following benefits plus an estimated Fringe Benefits Tax amount:
- Baocai Zhang – car parking, medical insurance
- Reinhold Schmidt – car parking, accommodation
- Lei Zhang – car parking, medical insurance
- 2015 Short-Term Bonus and Special Incentive Scheme figures for Reinhold Schmidt, Baocai Zhang and Lei Zhang are accrued figures to be paid around April 2016

B Lei Zhang appointed Chief Financial Officer 31 March 2014.

C Peter Barton ceased employment 30 June 2014.

D Michael Dingwall ceased employment 31 January 2014.

E Cunliang Lai ceased as Chairman Executive Committee 20 January 2014.

F Michael Wells ceased as Acting Chief Financial Officer 31 March 2014.

DIRECTORS' REPORT
CONTINUED

TABLE 12: Details of STI opportunities and Short-Term Bonus granted to Senior Executives in 2015

Name		STI or Short-Term Bonus $[A]	% of maximum entitlement granted	% of maximum entitlement forfeited
Reinhold Schmidt	**2015**	**1,208,605**	**83%**	**17%**
	2014	1,155,696	80%	20%
Baocai Zhang	**2015**	**245,481**	**60%**	**40%**
	2014	252,945	63%	37%
Lei Zhang	**2015**	**127,723**	**100%**	**0%**
	2014	131,400	133%	0%

A 2015 Short-Term Bonus figure for Reinhold Schmidt, Baocai Zhang and Lei Zhang are to be paid around April 2016.

TABLE 13: Details of Non-Executive Directors' Remuneration, earned in 2015 and 2014

		Short-Term Benefits			Post-Employment Benefits		
Name		**Fees**	**STI or Bonus**	**Non-Monetary Benefits**	**Super-annuation**	**Long Service Leave**	**Total**
Non-Executive Directors							
Xiyong Li	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	Nil	Nil	Nil	Nil	Nil	Nil
Huaqiao Zhang	**2015**	**96,033**[C]	**Nil**	**Nil**	**8,696**	**Nil**	**104,729**
	2014	80,239	Nil	Nil	6,126	Nil	86,365
Cunliang Lai	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	34,954	Nil	Nil	10,574	Nil	45,528
Yuxiang Wu	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	Nil	Nil	Nil	Nil	Nil	Nil
William Randall	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	Nil	Nil	Nil	Nil	Nil	Nil
Xinghua Ni	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	Nil	Nil	Nil	Nil	Nil	Nil
Gregory Fletcher	**2015**	**197,214**[D]	**Nil**	**Nil**	**16,462**	**Nil**	**213,676**
	2014	324,675	Nil	Nil	15,482	Nil	340,157
Geoffrey Raby	**2015**	**171,888**[E]	**Nil**	**Nil**	**15,688**	**Nil**	**187,576**
	2014	189,888	Nil	Nil	15,482	Nil	205,370
Vincent O'Rourke	**2015**	**169,638**[F]	**Nil**	**Nil**	**16,116**	**Nil**	**185,754**
	2014	178,876	Nil	Nil	15,482	Nil	194,358
Total	**2015**	**634,771**	**Nil**	**Nil**	**56,962**	**Nil**	**691,733**
	2014	808,632	Nil	Nil	63,146	Nil	871,778
Non-Executive Directors							
James MacKenzie	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	108,455	Nil	Nil	8,401	Nil	116,856
Total	**2015**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**
	2014	108,455	Nil	Nil	8,401	Nil	116,856

Includes following transaction specific remuneration paid during the year ended 31 December 2015:

C Huaqiao Zhang – $4,500

D Gregory Fletcher – $30,000

E Geoffrey Raby – $6,750

F Vincent O'Rourke – $4,500

7. Equity instrument disclosures

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

(i) Mr Gregory Fletcher:
- holds 1,000 fully paid ordinary shares in Yancoal Australia Ltd. There were no movement in these shares in 2014 or 2015, and
- holds 24 Subordinated Capital Notes issued by Yancoal SCN Limited, a wholly owned subsidiary of Yancoal Australia Limited, at their issue price of US$100 each.

(ii) Mr Reinhold Schmidt:
- holds 80 Subordinated Capital Notes issued by Yancoal SCN Limited, a wholly owned subsidiary of Yancoal Australia Limited, at their issue price of US$100 each,
- on 23 March 2015 Mr Reinhold Schmidt acquired 20,210 fully paid ordinary shares in Yancoal Australia Ltd, and
- on 31 March 2015 Mr Reinhold Schmidt acquired 115,571 fully paid ordinary shares in Yancoal Australia Ltd.

(iii) On 23 March 2015 Mr Baocai Zhang acquired 1,162,790 fully paid ordinary shares in Yancoal Australia Ltd.

(iv) On 25 March 2015 Mr Vincent O'Rourke acquired 250,000 fully paid ordinary shares in Yancoal Australia Ltd.

(v) No other Directors or key management personnel held any shares in respect of Yancoal Australia Ltd or its related entities at, or during the year ended 31 December 2015.

8. Other transactions with and loans to key management personnel

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

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

INSURANCE OF OFFICERS OR AUDITORS

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

DIRECTORS' REPORT
CONTINUED

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

– all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
– none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the Group, its related practices and non-related audit firms:

	2015 $	2014 $
Non-audit services		
ShineWing Australia		
Audit and other assurance services	**741,000**	690,000
Audit of regulatory returns	**24,000**	33,000
Other assurance services	**120,000**	600,000
Total non-audit services remuneration of ShineWing Australia	**885,000**	1,323,000

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 51.

ROUNDING OF AMOUNTS

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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

Mr Baocai Zhang
Director

Sydney
29 February 2016

AUDITOR'S INDEPENDENCE DECLARATION

ShineWing Australia
Accountants and Advisors
Level 10, 530 Collins Street
Melbourne VIC 3000
T +61 3 8635 1800
F +61 3 8102 3400
shinewing.com.au

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

I declare that to the best of my knowledge and belief, during the year ended 31 December 2015 there have been:

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

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

ShineWing Australia

ShineWing Australia
Chartered Accountants

M J Schofield
Partner

Sydney, 29 February 2016

CORPORATE GOVERNANCE STATEMENT

Introduction

The Company adopts an approach to corporate governance based on international best practice and Australian law requirements. The Board and management are committed to corporate governance. To the extent appropriate to the scale and nature of the Company's business, the Company has adopted the 3rd edition of the ASX Corporate Governance Council's Principles and Recommendations (ASX Recommendations).

This statement sets out the Company's compliance with the 3rd edition of the ASX Recommendations, and the main corporate governance policies and practices adopted by the Company.

Principle 1: Lay solid foundations for management and oversight

Role of the Board

The Board is responsible for the overall corporate governance of the Company including directing the affairs of the Company, setting and monitoring the Company's risk management strategy and overseeing the appointment, remuneration and performance of senior executives. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of the Company. The Board's role and responsibilities and its delegation of authority to standing committees and senior executives have been formalised in a Board Charter. The Board Charter can be found within the Corporate Governance section of the Company's website.

The Board Charter sets out the procedure by which the Board collectively, and each individual Director, can seek independent professional advice at the Company's expense.

Delegation to management

The Board delegates responsibility for the day to day management of the Company's affairs and implementation of the strategy and policy initiatives set by the Board to the Chair of the Executive Committee, the Chief Executive Officer and other senior executives. The Executive Committee is a management committee comprising the Chair of the Executive Committee, the Chief Executive Officer and other senior executives.

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

The Company's key management personnel are employed under employment contracts that set out the terms of their employment.

Company Secretary

The Company Secretary is accountable through the Chair on all matters to do with the proper functioning of the Board. All directors have direct access to the Company Secretary. The Board Charter sets out the other duties of the Company Secretary, which include being responsible for:

- ensuring compliance by the Company with the Company's constitution, the provisions of the Corporations Act and other applicable laws as they relate to the Company;
- ensuring that the Company's books and registers required by the Corporations Act are established and properly maintained;
- ensuring that all notices and responses are lodged with ASIC and ASX on time; and
- organising and attending Shareholder meetings and Directors' meetings, including sending out notices, preparing agendas, marshalling proxies and compiling minutes.

Nomination and appointment of Directors

The Board considers that Board succession planning, and the progressive and orderly renewal of the Company's Board membership, are an important part of the governance process.

The Board's policy for the selection, appointment and re-appointment of Directors is to ensure that the Board possesses an appropriate range of skills, experience and expertise to enable the Board to carry out its responsibilities most effectively. As part of this appointment and re-appointment process, the Directors consider Board renewal and succession plans and whether the Board's size and composition is conducive to making appropriate decisions.

At the time of appointment of a new Non-Executive Director, the key terms and conditions relevant to that person's appointment, the Board's responsibilities and the Company's expectations of a Director are set out in a letter of appointment.

The Board has established a Nomination and Remuneration Committee to make recommendations to the Board on matters such as succession plans for the Board, the size and composition of the Board, potential candidates for appointment to the Board, re-election of Directors, Board induction and Board evaluation procedures. The structure and membership of the Nomination and Remuneration Committee is described further under Principles 2 and 8.

The Board recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. Whilst traditionally experience as a senior executive or Director of a large organisation with international operations is a prerequisite for candidature, in accordance with the Diversity Policy, the Board also seeks skills and experience in the following areas:

- marketing and sales;
- policy and regulatory development and reform;
- health, safety and environment and social responsibility; and
- human resources.

In identifying candidates, the Nomination and Remuneration Committee will consider and select nominees by reference to a number of selection criteria including the skills, expertise and background that add to and complement the range of skills, expertise and background of the existing Directors, the capability of the candidate to devote the necessary time and commitment to the role, potential conflicts of interest and independence, and the extent to which the candidate would fill a present need on the Board. The mix of skills currently held by the Board are set out under Principle 2.

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

Shareholder approval is required for the appointment of Directors. However, Directors may appoint other Directors to fill a casual vacancy where the number of Directors falls below the constitutional minimum number of Directors and in order to comply with any applicable laws, regulations or the ASX Listing Rules. If a Director is appointed to fill a casual vacancy in these circumstances, the approval of members must be sought at the next general meeting. On 23 April 2015, Fuqi Wang, a Yanzhou employee for over 30 years, was appointed as a Director of the Company by Yanzhou pursuant to rules 7.10(a)(2) and 7.10(b)(3) of the Company's Constitution. Mr Wang is a long standing employee of Yanzhou, whose background and suitability were able to be confirmed with Yanzhou.

No Director may hold office without re-election beyond the third annual general meeting (**AGM**) following the meeting at which the Director was last elected or re-elected. The Company provides all material information in relation to Directors standing for election or re-election in the Notice of Meeting provided to shareholders prior to the AGM.

To the extent that the ASX Listing Rules require an election of Directors to be held and no Director would otherwise be required under the Company's Constitution to submit for election or re-election at an AGM, the Director who has been the longest in office since their last election or appointment must retire at the AGM. As between Directors who were last elected or appointed on the same day, where it is not agreed between the relevant Directors, the Director to retire must be decided by lot.

The process for appointment, retirement and re-election of Directors is set out in the Company's Constitution which can be found within the Corporate Governance section of the Company's website.

Diversity

The Company recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. The Company has adopted a Diversity Policy, approved by the Board to actively facilitate a more diverse and representative management and leadership structure. The Diversity Policy is available in the Corporate Governance section of the Company's website.

Annually, the Board establishes measurable objectives with the assistance of the Nomination and Remuneration Committee with a view to progressing towards a balanced representation of women at a Board and senior management level.

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

The measurable objectives adopted for 2015 and the Company's performance against the measurable objectives are outlined in the table below:

Objective	Performance
1. To increase employee awareness and understanding of the importance of diversity by implementing training on the Company's Diversity Policy and Workplace Behaviour & Anti-Discrimination Policy.	The Company ran training sessions across various sites in 2015 on Workplace Behaviour & Anti-Discrimination. These sessions were aimed at promoting a bullying and harassment free environment, encouraging all employees to speak up about incidents and to ensure that the Company's culture is aligned to Yancoal values and behaviours. Employees across the organisation have access to the Company's Code of Conduct via the Company intranet and are reminded of this via inductions, crew talks and as relevant issues arise.
2. To target a diverse group of candidates with recruitment and selection procedures that are merit-based and non-discriminatory.	Across the Yancoal group, merit-based, non-discriminatory practices are adhered to in the recruitment of new employees.
3. To ensure our managers are adept recruiters, retainers and motivators of our diverse workplace.	Our Human Resources team is actively involved with management in the process of recruiting new employees, including being involved in interviews of potential employers, coaching and mentoring on targeted selection techniques and merit-based selection, as well as ensuring general diversity awareness with regards to candidates. The "Yancoal Way", continues to roll out across the Group. The message of "lunatic thinking", which means any idea, that can potentially reduce costs or make us more efficient is encouraged along with continuous improvement and a zero harm safety culture being promoted during recruitment, induction and performance review processes to promote a culture that encourages engagement, diversity and continuous learning.

CORPORATE GOVERNANCE STATEMENT
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Proportion of Women in the Company

Gender has been identified as a key area of focus for the Company. On an annual basis, the Nomination and Remuneration Committee reviews the proportion of women employed by the Company and submits a report to the Board outlining its findings. Details regarding the proportion of men and women throughout the organisation are set out below.

During 2015, the proportion of women who are directly employed by the Company as a whole is 11%: 225 Full-time, 6 Part-time and 8 Casual, an increase of 0.5% from 2014.

The proportion of women in senior management roles (being roles which directly report to the Chief Executive Officer or Chair of the Executive Committee) within the Company during 2015 is 9%: Women held 2 of 11 senior management roles within the Company.

There are no women on the Company's Board.

Performance of the Board, its Committees and individual Directors

The Nomination and Remuneration Committee oversees an annual evaluation process for the Board, its committees and each Director based on the Board Performance Evaluation Protocol adopted and approved by the Board.

The Board

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

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

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

An externally facilitated review of the Board's performance commenced in 2015 in accordance with the procedure set out above. the Nomination and Remuneration Committee considers assessments by independent bodies regarding Boards of Australian companies and their performance. The Chair of the Nomination and Remuneration Committee reports any material issues or findings from these evaluations to the Board.

Board committees

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

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

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

A review of the Board's Committees for 2015 is being conducted in accordance with the process disclosed above as part of the externally facilitated review of the Board's performance.

Individual Directors

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

An annual performance review of Non-Executive Directors is conducted by the Chair for each Non-Executive Director specifically addressing the performance criteria within the Board Performance Evaluation Protocol.

An annual review of the performance of the Chair of the Board is facilitated by the Co-Vice Chairmen who seeks input from each Director individually on the performance of the Chair of the Board against the competencies for the Chair's role approved by the Board. The Co-Vice Chairmen collate the input in order to provide an overview report to the Nomination and Remuneration Committee and to the Board, as well as feedback to the Chair of the Board.

A review of individual Directors for 2015 is being conducted in accordance with the process disclosed above as part of the externally facilitated review of the Board's performance.

Performance of senior executives

The Chair of the Executive Committee and the Chief Executive Officer review the performance of senior executives annually against appropriate measures as part of the Company's performance management system for all managers and staff.

On an annual basis, the Nomination and Remuneration Committee and subsequently the Board formally reviews the performance of the Chief Executive Officer and the Chair of the Executive Committee. The Chief Executive Officer's performance is assessed against qualitative and quantitative criteria, including profit performance, other financial measures, safety performance and strategic actions. The Nomination and Remuneration Committee also undertakes an annual formal review of the performance of other members of the Executive Committee, based on similar criteria. The Board reviews and approves the annual review of all the members of the Executive Committee undertaken by the Nomination and Remuneration Committee.

The performance evaluation for the Chief Executive Officer and senior executives has taken place in 2015 in accordance with the process disclosed above and in the Remuneration Report. The results of the performance review is disclosed in the Remuneration Report.

Principle 2: Structure the Board to add value

Structure of the Board

Currently, the Board comprises Xiyong Li, Cunliang Lai, Baocai Zhang, Yuxiang Wu, Boyun Xu, William Randall, Geoffrey Raby, Gregory Fletcher, Vincent O'Rourke AM, Huaqiao Zhang and Fuqi Wang (who was appointed on 23 April 2015). Xinghua Ni retired as a Director on 23 April 2015.

The skills, experience and expertise of each Director and the period that each Director has held office is disclosed in the Information on Directors in the Directors' Report, on page 32.

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

Chair of the Board

The current Chair of the Board, Xiyong Li was nominated by the Company's major shareholder, Yanzhou. The Chair leads the Board and is responsible for the efficient organisation and conduct of the Board's functioning. The Chair ensures that Directors have the opportunity to contribute to Board deliberations. The Chair regularly communicates with the Chair of the Executive Committee and the Chief Executive Officer and to review key issues and performance trends. The Chair, together with the Co-Vice Chairmen, Cunliang Lai and Baocai Zhang, also represent the Company in the wider community.

Board Committees

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

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

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

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

Committee	Purpose	Membership
Audit and Risk Management Committee	The Committee's objectives are to: – help the Board in relation to the reporting of financial information; – advise on the appropriate application and amendment of accounting policies; – make evaluations and recommendations to the shareholders of the Company regarding the external auditor; – recommend to the Board the remuneration of the external auditor for shareholder approval as required in accordance with the Constitution; – provide a link between the Board and the external auditor and management; – ensure that the Board, Directors and management are aware of material risks facing the business; and – ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively.	Gregory Fletcher – Chair Yuxiang Wu Geoffrey Raby (minimum of three Non-Executive Directors, a majority of whom are independent)
Health, Safety and Environment Committee	The Committee assists the Board to: – fulfil its responsibilities in relation to the health, safety and environment (collectively **HSE**) matters arising out of the activities of the Company; – consider, assess and monitor whether or not the Company has in place the appropriate policies, standards, systems and resources required to meet the Company's HSE commitments; and – provide necessary focus and guidance on HSE matters across the Company.	Vincent O'Rourke – Chair Geoffrey Raby Fuqi Wang (appointed on 23 April 2015) Xinghua Ni (ceased on 23 April 2015) (minimum of three Directors)

CORPORATE GOVERNANCE STATEMENT
CONTINUED

Committee	Purpose	Membership
Nomination and Remuneration Committee	The Committee assists the Board of the Company by making recommendations in relation to: – Board composition and succession planning for the Board; – Director remuneration (subject to any shareholder approval that is required in accordance with the Constitution and the ASX Listing Rules) and remuneration arrangements for the Executive Committee and any other person nominated as such by the Committee from time to time; – the public reporting of remuneration for Directors and the Company's Executive Committee; – the performance assessment of the Executive Committee; – designing company policy and regulations with regard to corporate governance; and – diversity.	Xiyong Li – Chair Cunliang Lai William Randall (minimum of three Non-Executive Directors)
Strategy and Development Committee	The Committee assists the Board in its oversight and review of the Company's strategic initiatives, including: – merger and acquisition proposals; – major capital markets transactions; – significant investment opportunities; and – proposals to dispose of significant Company assets.	Baocai Zhang – Chair Yuxiang Wu Fuqi Wang (appointed on 23 April 2015) Huaqiao Zhang Xinghua Ni (ceased on 23 April 2015) (minimum of three Directors)

The number of meetings held by each Committee during 2015 and each member's attendance at these meetings is set out in the Directors' Report on page 37.

An Independent Board Committee is established as and when required to manage any related party transactions. The Independent Board Committee was constituted five times in 2015 for the purposes of considering transactions between the Company and its major shareholder, Yanzhou[1]. In each case, the Committee comprised at least three independent Directors.

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

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

Standing Committees

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

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

Director independence

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

The Board has assessed the independence of each of the Non-Executive Directors (including the Chair) in light of their interests and relationships. A majority of the Board are not considered independent directors having regard to their affiliation with the Company's major shareholder, Yanzhou.

Accordingly, the majority of the Board does not comprise independent Directors and the Company does not comply with Recommendation 2.4 of the ASX Recommendation. However, the Board considers that its composition appropriately represents the interests of its shareholders including its major shareholder, Yanzhou, and that the Board has put in place appropriate policies and procedures to guide the Board and senior executives in circumstances where conflicts of interest may arise and in its dealings with Yanzhou, including establishing the Independent Board Committee referred to above.

To help ensure that any conflicts of interests are identified, the Company has put in place a standing agenda item at all meetings of the Board and its committees to provide the Directors with the opportunity of declaring any conflicts of interests in the subject matter of the proposed resolutions made within the meeting.

To assist the Board in making independent judgements, the Board Charter sets out the procedure by which the Board collectively, and each individual Director, can seek independent professional advice at the Company's expense.

1 The Independent Board Committee considered transactions between the Company and its majority shareholder, Yanzhou.

Each independent Director must regularly provide the Board with all information relevant to their continued compliance with the independence standard. The independence of Directors will be reviewed by the Board on a regular basis with assistance from the Nomination and Remuneration Committee. The Nomination and Remuneration Committee will also assist the Board with regular evaluation of the performance of the Board, Board Committees and individual Directors.

Independence Standard

In assessing the independence of its Directors, the Board has regard to the factors relevant to assessing the independence of a Director that are set out in Box 2.3 of the ASX Recommendations (3rd edition). The criteria considered in assessing the independence of Non-Executive Directors are also set out in the Board Charter.

A Director is considered independent if the Director:

- is not, nor has within the last three years been, employed in an executive capacity by the Company or any of its child entities;
- is not, nor has within the last three years been, a partner, director or senior employee of a provider of material professional services to the Company or any of its child entities;
- is not, nor has within the last three years been, in a material business relationship with the Company or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- is not a substantial Shareholder of the Company or an officer of, or otherwise associated with, a substantial Shareholder of the Company;
- does not have a material contractual relationship with the Company or any of its child entities other than as a director;
- does not have close family ties with any person who falls within any of the categories described above;
- has not been a director of the Company for such a period that his or her independence may have been compromised; and
- is free from any other interest, position, association or relationship that might interfere, or might reasonably be seen to interfere, with the director's capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its shareholders generally.

The Company's Constitution provides that the Company's shareholders holding a majority of the issued shares of the company (which confer the right to vote) may nominate a Director to the office of Chair and may elect one or more Directors to the office of Vice Chair.

Although as a nominee of Yanzhou, Xiyong Li, the Chair of the Board is not considered independent by the independence standard (as above), the Board considers that this is an appropriate reflection of Yanzhou's majority shareholding in the Company. While a majority of the Directors are associated with Yanzhou this is considered appropriate in light of Yanzhou's major shareholding in the Company.

William Randall is an executive director of Noble Group Limited (a substantial shareholder and material customer of the Company). The Board considers that this relationship does not materially interfere with, nor is perceived to interfere with, the independent exercise of Mr Randall's judgement and that he is able to fulfil the role of independent Director for the purpose of the ASX Recommendations. Whilst Mr Randall has a relationship with the Company which falls within the items listed in Box 2.3 of the ASX Recommendations, the Board has adopted different criteria in determining whether Directors are independent, and on that basis, considers William Randall to be an independent Non-Executive Director. Where appropriate, Mr Randall stands aside from decision making where conflicts of interest may arise, and in those circumstances does not participate in Independent Board Committees.

Board skills matrix

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

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

Induction and professional development

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

Directors also participate in continuing education or development programs arranged for them, including for example training on director's duties and developments in workplace health and safety law.

The Company Secretary supports Directors by providing access to information in appropriate form where requested.

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Principle 3: Act ethically and responsibly

Conduct and ethics

The Board policy is that directors, employees and contractors must observe both the letter and spirit of the law, and adhere to the highest standards of business conduct. The Company has adopted a formal Code of Conduct and other guidelines and policies which are approved by the Board that set out legal and ethical standards for the Company's Directors and employees, including a Conflicts of Interests and Related Party Transactions Policy.

The Code of Conduct and these other guidelines and policies guide the Directors, the Chief Executive Officer, senior executives, and employees generally as to the practices necessary to maintain confidence in the Company's integrity and as to the responsibility and accountability of individuals for reporting, and investigating reports of, unethical practices. The Code of Conduct and these other guidelines and policies also guide compliance with legal and other obligations to stakeholders.

Specifically, the objective of the Code of Conduct is to:

- provide a benchmark for professional behaviour;
- support the Company's business reputation and corporate image within the community; and
- make directors and employees aware of the consequences if they breach the policy.

The key values underpinning the Code of Conduct are:

- our actions must be governed by the highest standards of integrity and fairness;
- our decisions must be made in accordance with the letter and spirit of applicable law; and
- our business must be conducted honestly and ethically, with our best skills and judgement, and for the benefit of customers, employees, shareholder and the Company alike.

The Code of Conduct is available in the Corporate Governance section of the Company's website.

Reporting concerns and whistleblower protection

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

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

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

Principle 4: Safeguard integrity in corporate reporting

Audit and Risk Management Committee

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

In accordance with its Charter, the Audit and Risk Management Committee has at least three members. The members of this Committee are Gregory Fletcher (Chair of the Committee), Yuxiang Wu and Geoffrey Raby. The Committee consists only of Non-Executive Directors with a majority being independent. Consistent with the ASX Recommendations, the Chair of the Committee, is an independent Non-Executive Director and is not the Chair of the Board. The qualifications, skills and experience of each member is disclosed in the Information on Directors in the Directors' Report, on page 32.

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

The Chief Executive Officer and Chief Financial Officer have declared in writing to the Board that in respect of the half year ended 30 June 2015 and the full year ended 31 December 2015, in their opinion, the financial records of the Company have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

External Auditor

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

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

Principle 5: Make timely and balanced disclosure

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

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

The Board has put in place a Disclosure Policy to encapsulate the disclosure obligations under the Corporations Act 2001 and the ASX Listing Rules and to set out procedures for managing compliance with those obligations. These procedures provide a framework for managing the disclosure of material matters to the market to ensure accountability at Board and senior executive level. As part of this framework, a standing agenda item at all the Company's Board and Executive Committee meetings requires the Directors and senior executive to consider whether any matters at the meeting should be disclosed to the market. The Disclosure Policy can be found within the Corporate Governance section of the Company's website.

A Disclosure Committee has been established to assist the Company to meet its disclosure obligations. The Committee plays a key role in reviewing and determining whether information is likely to have material effect on the price or value of the Company's securities such that it requires disclosure to the market. The Disclosure Committee members comprise the Chair of the Executive Committee, Chief Executive Officer, Chief Financial Officer, Company Secretary, Investor Relations General Manager and Group Counsel.

Any information disclosed to the market through an announcement to the ASX is also published on the Investor section of the Company's website.

Principle 6: Respect the rights of shareholders

Communications with shareholders

The Company has an investor relations program that is aimed at facilitating two-way communications with investors. The Company's policy is to promote effective communication with shareholders and other investors so that they understand how to assess relevant information about the Company and its corporate direction. The Company aims to keep shareholders, potential investors and other stakeholders informed of all major developments affecting the state of affairs of the Company. The Company communicates information regularly to shareholders, potential investors and other stakeholders by:

- posting announcements on the ASX platform in accordance with its continuous disclosure obligations and also making these announcements available on the Company's website;
- keeping its website up to date on important information about the Company, including its Constitution, Board and Board Committee Charters, core corporate governance policies and financial information about the Company; and
- publishing investor presentations made to analysts and media briefings available within the Investor section of the Company's website.

The Company encourages shareholders to attend and participate in all general meetings including annual general meetings. Shareholders are entitled to ask questions about the management of the Company and of the auditor as to its conduct of the audit and preparation of its reports. Any shareholders who cannot attend any general meetings can also participate via lodgement of their proxies. In addition, shareholders have the option of receiving communications from and sending communications to the Company and the Company's security registry, Computershare Investor Services, electronically.

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

Principle 7: Recognise and manage risk

Risk identification and management

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

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

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

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

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

In 2015, the Audit and Risk Management Committee had in place a framework to identify and manage material business risks. This framework includes:

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

The Audit and Risk Management Committee receives periodic reports on the success of the Company's risk management framework, as well as on the Company's key risk exposures to satisfy itself that it continues to be sound. Although a review of the risk management framework was not conducted in 2015 due to a scheduled review in 2016, the Audit and Risk Management Committee will conduct such review on an annual basis from 2016. The Audit and Risk Management Committee are satisfied that the risk management framework continues to be sound.

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

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

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

Risks associated with the Company

The future operating performance of the Group may be affected by risks relating to the Company's business. Some of these risks are specific to the Company while others relate to economic conditions and the general industry and markets in which the Company operates.

Where practicable, the Company seeks to implement risk mitigation strategies to minimise its exposure to some of the risks outlined below. However, there can be no assurance that such strategies will protect the Company from these risks. Other risks are beyond the Company's control and cannot be mitigated. The occurrence of any such risks could adversely affect the Company's financial condition and performance. The risks listed below are not purported to be exhaustive and there is no assurance that the importance of different risks will not change or other risks will not emerge.

Operating risks

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

Injury or accident risk

If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Company.

Funding requirements

The amount of future funding required by the Company will depend on a number of factors, including the performance of the Company's business at that time. The Company's business operations and cashflow are highly sensitive to any fluctuation in the US$ coal price, coal production from its operations, demand for its coal product and US$ movement in foreign exchange rates, particularly movements in the A$:US$ exchange rate.

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

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

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

Adverse foreign exchange rate movements

Foreign exchange risk is the risk of the Company sustaining loss through adverse movements in exchange rates. Such losses can impact the Company's financial position and performance and the level of additional funding required to support the Company's businesses.

The liabilities, earnings and cash flows of the Company are influenced by movements in exchange rates, especially movements in the A$:US$ exchange rate.

Foreign currency exposure arises particularly in relation to coal supply contracts, which generally are priced and payable in US$, procurement of imported plant and equipment, which can be priced in US$ or other foreign currencies, and debt denominated in currencies other than A$.

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

The Company has put in place accounting hedges, pursuant to Australian Accounting Standard 139, where future US$ denominated loan repayments are designated as "natural cash flow hedges" of future US$ denominated coal sales revenues in the periods immediately prior to each committed debt repayment. However, other exchange rate exposures are not hedged.

Coal prices and coal demand risk

The Company generates revenue from the sale of coal. In developing its business plan and operating budget, the Company makes certain assumptions regarding coal prices and demand for coal. The prices which the Company will receive for its coal depend on numerous market factors beyond its control and, accordingly, some underlying coal price assumptions relied on by the Company may materially change and actual coal prices and demand may differ materially from those expected.

The prices for coal are determined predominantly by world markets, which are affected by numerous factors, including the outcome of future sale contract negotiations, general economic activity, industrial production levels, changes in foreign exchange rates, changes in energy demand and demand for steel, changes in the supply of seaborne coal, technological changes, changes in production levels and events interfering with supply, changes in international freight rates or other transportation infrastructure and costs, the costs of other commodities and substitutes for coal, market changes in coal quality requirements, government regulations which restrict use of coal, and tax impositions on the resources industry, all of which are outside the control of the Company and may have a material adverse impact on coal prices and demand.

Coal production

Improvement in the Company's financial performance is dependent on the Company being able to sustain or increase coal production and decrease operating costs on a per tonne basis. The Company's success or failure in improving productivity will become particularly important to the Company's financial performance if the coal price remains at current levels or falls further.

The Company's coal production can be impacted by a number of factors, including unforeseen geological or geotechnical issues (particularly in the Company's underground operations), abnormal wet weather conditions (particularly in Queensland), unforeseen delays or complexities in installing and operating mining longwall systems, protracted breakdown of coal handling infrastructure and other mining equipment and rail and port breakdowns and outages. Regulatory factors and the occurrence of other operating risks can also limit production.

Regulatory approvals

The ability of the Company to meet its long-term production target profile depends on (amongst other things) the Company being able to obtain on a timely basis, and maintain, all necessary regulatory approvals (including any approvals arising under applicable mining laws, environmental regulations and other laws) for its current operations and expansion and growth projects, including obtaining planning approvals, land access, land owner consents and addressing any native title issues, impacts on the environment and objections from local communities.

There is no assurance or guarantee that the Company will be in a position to secure any or all of the required consents, approvals and rights necessary to maintain its current production profile from its existing operations or to develop its growth projects in a manner which will result in profitable mining operations and the achievement of its long-term production targets. If these approvals (or other approvals required for the planned production increases) are not obtained, or if conditional or limited approvals are obtained, the economic viability of the relevant projects may be adversely affected, which may in turn result in the value of the relevant assets being impaired.

The Company continues to engage openly and transparently with all State and federal Government and approval bodies, while operating to the highest safety, environmental and legislative standards to work towards facilitating all approvals as required.

Estimates of Resources and Reserves and geology

The volume and quality of the coal that the Company recovers may be less than the Resource and Reserve estimates reported to date. Resource and Reserve estimates are expressions of judgment based on knowledge, experience and industry practice. There are risks associated with such estimates, including that coal mined may be of a different quality or grade, tonnage or strip ratio from those in the estimates and the ability to economically extract and process the coal may not eventuate. Resource and Reserve estimates are necessarily imprecise and depend to some extent on interpretations and geological assumptions, coal prices, cost assumptions, and statistical inferences which may ultimately prove to have been unreliable.

Resource and Reserve estimates are regularly revised based on actual production experience or new information and could therefore be expected to change. Furthermore, should the Company encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, Resource and Reserve estimates may have to be adjusted and mining plans, coal processing and infrastructure may have to be altered in a way that might adversely affect their operations. If it is determined that mining of certain Reserves are uneconomic, this may lead to a reduction in the Company's aggregate Reserve estimates.

If the Company's actual Resource and Reserve estimates are less than current estimates, the Company's prospects, value, business, results of operations and financial condition may be materially adversely affected.

Uncertainty in costs forecast

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

Take or pay liabilities

Port and rail (above rail and below rail) capacity is generally contracted via long-term take-or-pay contracts. The Company will generally be required to pay for its contracted rail or port tonnage irrespective of whether it is utilised. Unused port or rail capacity can arise as a result of circumstances including insufficient production from a given mine, a mismatch between port and rail capacity for a mine, or an inability to transfer the used capacity due to contractual limitations such as required consent of the provider of the port or rail services, or because the coal must emanate from specified source mines or be loaded onto trains at specified load points.

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Mine closure

Closure of any of the mines or other operations of the Company before the end of their mine life (e.g. due to environmental and/or health and safety issues), could trigger significant employee redundancy costs, closure and rehabilitation expense and other costs or loss of revenues. Many of these costs will also be incurred where mines are closed at the end of their planned mine life or placed on care and maintenance. A move to care and maintenance has the potential to trigger significant employee redundancy costs and a subsequent loss of revenues, as a minimal employee presence is required for ongoing management and rehabilitation of the mine.

If one or more of the relevant sites are closed earlier than anticipated, the Company will be required to fund the closure costs on an expedited basis and potentially lose revenues, which could have an adverse financial effect. In addition, there is a risk that claims may be made arising from environmental remediation upon closure of one or more of their sites.

Coal supply agreements

The Company's coal supply agreements typically require the delivery of a fixed or minimum quantity of coal at a location, at a time and over a period stipulated in the agreement. To the extent that any contracted volumes cannot be delivered as agreed, the Company may be liable to pay substantial compensation for the resulting losses, costs and charges (including demurrage) incurred by the buyer.

As customer contracts expire, the Company's financial performance may be adversely affected if it is unable to renew those contracts or enter into replacement contracts on no less favourable terms.

It is possible that the coal quality specifications required by customers and the market more broadly may evolve over time to meet import restrictions and other regulatory requirements, technology advancements and other factors. If the Company is unable to supply coal that meets those specifications, its financial performance may be adversely affected.

Joint ventures and reliance on third parties

The Company holds a number of joint venture interests, including interests in the Middlemount and Moolarben mines, PWCS, NCIG and WICET, with other parties. Decision making, management, marketing and other key aspects of each joint venture are regulated by agreements between the relevant joint venture participants.

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

The Company also use contractors and other third parties for exploration, mining and other services generally, and is reliant on a number of third parties for the success of its current operations and for the development of its growth projects. While this is normal for the mining and exploration industry, problems caused by third parties may arise which may have an impact on the performance and operations of the Company. Any failure by counterparties to perform their obligations may have a material adverse effect on the Company and there can be no assurance that the Company will be successful in attempting to enforce its contractual rights through legal action.

Title risks

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

Overlapping tenement risks

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

Enforcement and counterparty insolvency risks

The Company has entered into contracts which are important to the future of its businesses including (but not limited to) for the provision of coal handling services, long-term sales contracts, debt facilities, long-term leases, contract mining and the provision of certain guarantees, indemnities and sureties.

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

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

Changes in government policy, regulation or legislation

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

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

Litigation

Like all companies in the resources sector, the Company is exposed to the risks of litigation (either as the complainant or as the defendant), which may have a material adverse effect on the financial position of the relevant entity. The Company could become exposed to claims or litigation by persons alleging they are owed fees for services, employees, regulators, competitors or other third parties.

Exploration and development risks

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

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

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

Transport and infrastructure

Coal produced from the Company's mining operations is transported to customers by a combination of road, rail and sea. A number of factors could disrupt or restrict access to essential coal transportation and handling services, including (but not limited to):

– weather related problems;
– key equipment and infrastructure failures;
– rail or port capacity constraints;
– congestions and inter-system losses;
– industrial action;
– failure to obtain consents from third parties for access to rail or land;
– failure or delay in the construction of new rail or port capacity;
– failure to meet contractual requirements;
– access is removed or not granted by regulatory authority;
– breach of regulatory framework; and
– mismatch of below rail capacity, above rail capacity and port capacity.

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

Sustainability risks

Environmental risks

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

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

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

Health, safety and hazardous materials risks

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

There is also a risk that actions could be brought against the Company, alleging adverse effects of such substances on personal health.

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

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General risks

General risk factors outside the control of the Company which may have a significant impact on the future performance of the Company include the following:

– economic conditions in Australia and internationally which may have a negative impact on capital markets;
– change in investor sentiment and perceptions in the local and international stock markets;
– changes in interest rates, exchange rates and the rate of inflation;
– changes in domestic or international fiscal, monetary, regulatory and other government policies, including changes to the taxation of company income and gains and the dividend imputation system in Australia;
– changes in environmental conditions, such lack of access to water;
– geo-political conditions such as acts or threats of terrorism, military conflicts or international hostilities;
– developments and general conditions in the markets in which the Company operates; and
– economic and natural disasters.

Internal audit function

The internal audit function is managed by the Executive General Manager (**EGM**) of Risk Management and Auditing. That person has direct access to the Chair of the Audit and Risk Management Committee, as well as to the Chair of the Executive Committee, to whom he directly reports. The Audit and Risk Management Committee recommends to the Board the appointment of the EGM Risk Management and Auditing.

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

The EGM Risk Management and Auditing has unfettered access to the Audit and Risk Management Committee and its Chair to seek information and explanations. The Chair of the Audit and Risk Management Committee meets independently with the EGM Risk Management and Auditing.

The role of the EGM Risk Management and Auditing includes achievement of the internal audit objectives, risk management policies and insurance strategy.

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

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

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

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

Health, Safety and Environment Compliance

The Company has adopted policies to comply with occupational health, safety, environment and other laws. The Board has approved a Health, Safety and Environment Policy which applies across the Company. In addition, each mine site has its own health, safety and environmental policies and procedures to deal with their particular health, safety and environmental issues. The Board has established a Health, Safety and Environment Committee to assist it in overseeing the Company's health, safety and environmental responsibilities. In accordance with its charter, this Committee has at least three members. The members of this Committee are Vincent O'Rourke (Chair of the Committee), Geoffrey Raby and Fuqi Wang (appointed on 23 April 2015). It is intended the Committee meets at least four times per year, or as frequently as required. The Committee meetings are held at one of the Company's mine sites, whenever possible, to receive feedback from the health, safety and environment forum held at the mine site and to address any mine specific health, safety and environment issues.

Principle 8: Remunerate fairly and responsibly

Nomination and Remuneration Committee

The Board has established a Nomination and Remuneration Committee. In accordance with its Charter, this Committee currently has 3 members, Xiyong Li (Chair of the Committee), Cunliang Lai and William Randall. A majority of the Committee and the Chair of the Committee is non-independent as Xiyong Li and Cunliang Lai are not independent Directors of the Company. However, the Board considers them appropriate members, and in the case of Xiyong Li, an appropriate Chair of this Committee, due to their skill set, experience and seniority, and that the overall composition of the Nomination and Remuneration Committee is appropriate.

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

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

The Committee has the necessary power and resources to meet its responsibilities under its charter, including rights of access to management, auditors and external advisers. It is intended that the Committee will meet at least once per year, or as frequently as required.

Remuneration of Non-Executive Directors

The Constitution provides that the Non-Executive Directors are entitled to such remuneration as approved by the Company's shareholders in accordance with the Constitution, which must not exceed the aggregate annual amount as determined by the Company in general meeting or by its major shareholder, Yanzhou.

Remuneration for Non-Executive Directors is capped at an aggregate amount for each financial year of $3.5 million. Non-executive Directors may also be paid such additional or special remuneration as the Directors decide is appropriate where a Non-Executive Director performs extra services or makes special exertions for the benefit of the Company. Such additional remuneration will not form part of the calculation of the aggregate cap on Non-Executive Directors' remuneration for a financial year and do not require shareholder approval.

Further details of the remuneration of the Non-Executive Directors, executive Directors and senior executives can be found in the Remuneration Report on pages 37 to 50.

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

Dealings in Company securities

By law, and under the Company's Insider Trading Policy, dealing in Company securities is subject to the overriding prohibition on trading while in possession of inside information.

In addition, the Company's Share Trading Policy prohibits dealing in Company securities or Yanzhou securities by Directors, senior executives and other relevant employees, as well as their closely related parties, during specified blackout periods each year. General employees are permitted to deal in Company securities outside these blackout periods, however additional approval requirements apply to Directors and the CEO. The Share Trading Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions on dealing under such plans. There are also restrictions that apply to relevant employees from entering into margin lending arrangements and short-term trading of the Company's securities. Breaches of the policy are treated seriously and may lead to disciplinary action, including dismissal.

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

This Corporate Governance Statement has been approved by the Board and is current as at 29 February 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	31 December 2015 $M	31 December 2014 $M
Revenue	B2	**1,319.1**	1,431.7
Other income	B3	**33.9**	62.3
Changes in inventories of finished goods and work in progress		**(119.7)**	(66.7)
Raw materials and consumables used		**(249.3)**	(254.7)
Employee benefits expense	B4	**(229.3)**	(272.7)
Depreciation and amortisation expense		**(200.4)**	(231.8)
Reversal of impairment of mining tenements	C2	**–**	140.0
Transportation expense		**(260.7)**	(255.5)
Contractual services and plant hire expense		**(217.6)**	(290.6)
Government royalties expense		**(76.6)**	(98.1)
Changes in deferred mining costs	C11	**(7.3)**	(20.6)
Other operating expenses	B5	**(147.0)**	(187.9)
Finance costs	B5	**(161.7)**	(164.8)
Share of loss of equity-accounted investees, net of tax	E2	**(37.2)**	(61.5)
Loss before income tax		**(353.8)**	(270.9)
Income tax benefit/(expense)	B6	**62.6**	(82.6)
Loss after income tax		**(291.2)**	(353.5)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Fair value losses taken to equity	D6	**(474.9)**	(497.2)
Fair value losses transferred to profit and loss	D6	**22.3**	28.9
Deferred income tax benefit	D6	**133.9**	142.4
Other comprehensive expense, net of tax		**(318.7)**	(325.9)
Total comprehensive expense		**(609.9)**	(679.4)
Total comprehensive expense for the year attributable to owners of Yancoal Australia Ltd arises from:			
Continuing operations		**(609.9)**	(679.4)

		$	$
Loss per share attributable to the ordinary equity holders of the Company:			
Basic and diluted loss per share	B7	**(0.29)**	(0.36)

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015

	Notes	31 December 2015 $M	31 December 2014 $M
ASSETS			
Current assets			
Cash and cash equivalents	C6	**154.4**	203.6
Trade and other receivables	C7	**225.2**	310.0
Royalty receivable	C9	**19.7**	17.8
Inventories	C8	**76.2**	112.7
Derivative financial instruments	D3	**–**	0.1
Other current assets	C11	**11.7**	24.7
Assets classified as held for sale	D1	**1,637.3**	–
Total current assets		**2,124.5**	668.9
Non-current assets			
Trade and other receivables	C7	**378.9**	387.5
Royalty receivable	C9	**185.2**	181.4
Investments accounted for using the equity method	E2	**7.7**	25.4
Property, plant and equipment	C1	**1,250.2**	1,906.9
Mining tenements	C2	**2,084.5**	2,466.2
Deferred tax assets	B6	**1,166.2**	836.8
Intangible assets	C5	**72.5**	79.1
Exploration and evaluation assets	C4	**590.5**	896.0
Other non-current assets	C11	**9.5**	31.2
Total non-current assets		**5,745.2**	6,810.5
Total assets		**7,869.7**	7,479.4
LIABILITIES			
Current liabilities			
Trade and other payables		**292.3**	280.1
Interest-bearing liabilities	D2	**10.9**	14.9
Derivative financial instruments	D3	**1.0**	16.0
Provisions	C10	**12.4**	35.3
Liabilities directly associated with assets classified as held for sale	D1	**321.7**	–
Total current liabilities		**638.3**	346.3
Non-current liabilities			
Trade and other payables		**–**	0.4
Interest-bearing liabilities	D2	**4,720.6**	3,765.1
Deferred tax liabilities	B6	**692.1**	749.0
Provisions	C10	**130.4**	124.2
Deferred income		**–**	7.2
Total non-current liabilities		**5,543.1**	4,645.9
Total liabilities		**6,181.4**	4,992.2
Net assets		**1,688.3**	2,487.2
EQUITY			
Contributed equity	D4	**3,103.0**	3,105.6
Reserves	D6	**(879.9)**	(561.2)
Accumulated losses		**(534.8)**	(57.2)
Capital and reserves attributable to owners of Yancoal Australia Ltd		**1,688.3**	2,487.2
Total equity		**1,688.3**	2,487.2

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Attributable to owners of Yancoal Australia Ltd				
	Contributed equity $M	Capital reserves $M	Hedge reserves $M	Accumulated losses $M	Total equity $M
Balance at 1 January 2014	656.8	259.4	(235.3)	296.3	977.2
Loss after income tax	–	–	–	(353.5)	(353.5)
Other comprehensive expense	–	–	(325.9)	–	(325.9)
Total comprehensive expense	**–**	**–**	**(325.9)**	**(353.5)**	**(679.4)**
Transactions with owners in their capacity as owners:					
Issue of subordinated capital notes	2,185.9	–	–	–	2,185.9
Contingent value right shares	262.9	(262.9)	–	–	–
Recognition of cash receivable for settlement of CVR shares	–	3.5	–	–	3.5
	2,448.8	(259.4)	–	–	2,189.4
Balance at 31 December 2014	**3,105.6**	**–**	**(561.2)**	**(57.2)**	**2,487.2**
Balance at 1 January 2015	3,105.6	–	(561.2)	(57.2)	2,487.2
Loss after income tax	–	–	–	(291.2)	(291.2)
Other comprehensive expense	–	–	(318.7)	–	(318.7)
Total comprehensive expense	**–**	**–**	**(318.7)**	**(291.2)**	**(609.9)**
Transactions with owners in their capacity as owners:					
Transaction cost of subordinated capital notes	(2.6)	–	–	–	(2.6)
Distributions to subordinated capital notes' holders	–	–	–	(186.4)	(186.4)
	(2.6)	–	–	(186.4)	(189.0)
Balance at 31 December 2015	**3,103.0**	**–**	**(879.9)**	**(534.8)**	**1,688.3**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	31 December 2015 $M	31 December 2014 $M
Cash flows from operating activities			
Receipts from customers		**1,329.9**	1,220.7
Payments to suppliers and employees		**(1,301.4)**	(1,308.8)
Interest paid		**(126.3)**	(156.7)
Interest received		**7.2**	7.2
Transaction costs paid		**–**	(0.4)
Income taxes paid		**(16.9)**	(9.8)
Net cash outflow from operating activities	F3	**(107.5)**	(247.8)
Cash flows from investing activities			
Payments for property, plant and equipment		**(290.0)**	(176.3)
Payments for capitalised exploration and evaluation activities		**(2.1)**	(4.8)
Proceeds from sale of property, plant and equipment		**–**	0.7
Payment for acquisition of subsidiary (net of cash acquired)		**(23.3)**	(15.2)
Advances from related entities		**0.1**	–
Advances to joint venture		**–**	(28.5)
Payment of deferred purchase consideration		**–**	(0.5)
Cash transferred from restricted accounts		**1.4**	13.4
Net cash outflow from investing activities		**(313.9)**	(211.2)
Cash flows from financing activities			
Payment of finance lease liabilities		**(10.7)**	(10.9)
Repayment of interest-bearing liabilities – external		**–**	(105.5)
Proceeds from interest-bearing liabilities – related entities		**401.7**	459.4
Repayment of interest-bearing liabilities – related entities		**–**	(2,194.6)
Receipt of contingent value right shares – related entities		**–**	262.9
Payment of contingent value right shares		**–**	(262.9)
Proceeds from subordinated capital note subscription		**–**	2,194.6
Payment of transaction cost of subordinated capital notes		**(13.1)**	(2.1)
Payment of subordinated capital notes distribution		**(12.4)**	–
Net cash inflow from financing activities		**365.5**	340.9
Net decrease in cash and cash equivalents		**(55.9)**	(118.1)
Cash and cash equivalents at the beginning of the financial year		**203.6**	318.0
Effects of exchange rate changes on cash and cash equivalents		**11.3**	3.7
Transfer to assets held for sale		**(4.6)**	–
Cash and cash equivalents at the end of the year	C6	**154.4**	203.6

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

A – BASIS OF PREPARATION

The consolidated financial statements and notes are for the consolidated entity consisting of Yancoal Australia Ltd ("Company" or "parent entity") and its subsidiaries ("the Group"). The separate financial statements of the parent entity, Yancoal Australia Ltd, have not been presented within this financial report as permitted by the Corporations Act 2001.

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

The financial statements were authorised for issue in accordance with a resolution of the Directors on 29 February 2016.

(i) Compliance with IFRS

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

(ii) Subsidiaries

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

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note E1). 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 are aligned to ensure consistency with the policies adopted by the Group.

(iii) Significant accounting policies

Significant accounting policies have been included in the relevant notes to which the policies relate, and other significant accounting policies are discussed in Note F5. These policies have been consistently applied to all the years presented, unless otherwise stated.

(iv) Historical cost convention

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

(v) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, or in certain cases, the nearest dollar.

(vi) New and amended standards adopted by the Group

During the year the following amendments were early adopted by the Group:

– AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisition of Interests in Joint Operations (AASB 1 and AASB 11). Under the amendment, the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, is required to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those that conflict with the guidance in AASB 11. The amendment also requires the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations. This amendment was made effective by the Group from 1 January 2015.
– AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 makes amendments to AASB 101 Presentation of Financial Statements. The changes clarify that entities should not be disclosing immaterial information and that the presentation of information in notes can and should be tailored to provide investors and other users with the clearest story of an entity's financial performance and financial position. This amendment was made effective by the Group in preparing its 2015 annual report.

The Group has not elected to apply any other pronouncements before their operative date in the annual reporting period beginning 1 January 2015.

Yancoal Australia Ltd has not been required to change some of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2015. These standards are discussed in Note F6.

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

Australian Accounting Standards and Interpretations issued but not yet applicable for the year ended 31 December 2015 that not been applied by the Group are disclosed in Note F7.

(viii) Critical accounting estimates

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

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

Details of critical accounting estimates and judgements can be found in the notes to which they relate and include income taxes B6, mining tenements C2, impairment of assets C3, exploration and evaluation assets C4, royalty receivable C9, provisions C10, and assets classified as held for sale D1.

(ix) Going concern

For the year ended 31 December 2015, the Group had a loss after income tax of $291.2 million (31 December 2014: loss after income tax of $353.5 million) from continuing operations.

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

(i) At 31 December 2015, the Group has a cash balance of $154.4 million.

(ii) At 31 December 2015, the Group has surplus net current assets excluding assets held for sale of $170.6 million.

(iii) The Directors of Yanzhou Coal Mining Company Limited ("Yanzhou") have provided financial support in the form of a A$1.4 billion facility (US$499.5 million drawn) to support the on-going operations and the expansion of the Group to enable it to pay its debts as and when they fall due, and a US$807 million facility (US$73.2 million drawn) for the 7% coupon distribution of the Subordinated Capital Notes in the first 5 years.

(iv) The Directors of Yanzhou have provided a letter of support whereby unless revoked by giving not less than 24 month's notice, for so long as Yanzhou owns at least 51% of the shares of Yancoal, Yanzhou will ensure that Yancoal continues to operate so that it remains solvent.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

B – PERFORMANCE

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

B1 SEGMENT INFORMATION

Accounting Policies

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

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

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

(a) Segment information

The segment information for the reportable segments for the year ended 31 December 2015 is as follows:

	Coal Mining			
31 December 2015	**NSW $M**	**QLD $M**	**Corporate $M**	**Total $M**
Total segment revenue*	975.7	289.5	–	1,265.2
Add: loss on foreign exchange rate contracts	22.3	–	–	22.3
Revenue from external customers	**998.0**	**289.5**	**–**	**1,287.5**
Operating EBIT	**(39.2)**	**(31.3)**	**(130.3)**	**(200.8)**
Material income or expense items				
Non-cash items				
Remeasurement of royalty receivable	–	–	2.4	2.4
Depreciation and amortisation expense	(172.2)	(21.3)	(6.9)	(200.4)
Gain on acquisition of interest in joint operation and subsidiaries	–	–	6.3	6.3
	(172.2)	**(21.3)**	**1.8**	**(191.7)**
Cash items	**–**	**–**	**–**	**–**
Total capital expenditure	**319.0**	**14.9**	**1.7**	**335.6**
Segment assets	5,159.9	665.5	870.4	6,695.8
Deferred tax assets	21.5	30.5	1,114.2	1,166.2
Investment in joint venture	–	–	7.7	7.7
Total assets	**5,181.4**	**696.0**	**1,992.3**	**7,869.7**

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

The segment information for the reportable segments for the year ended 31 December 2014 is as follows:

31 December 2014	Coal Mining NSW $M	Coal Mining QLD $M	Corporate $M	Total $M
Total segment revenue*	1,041.4	333.0	–	1,374.4
Add: loss on foreign exchange rate contracts	26.7	–	–	26.7
Revenue from external customers	**1,068.1**	**333.0**	**–**	**1,401.1**
Operating EBIT	**(199.4)**	**(3.2)**	**(75.6)**	**(278.2)**
Material income or expense items				
Non-cash items				
Remeasurement of royalty receivable	–	–	(16.8)	(16.8)
Remeasurement of contingent value right shares	–	–	(3.5)	(3.5)
Depreciation and amortisation expense	(206.4)	(25.1)	(0.2)	(231.7)
Foreign exchange loss on interest-bearing liabilities	–	–	24.1	24.1
Gain on acquisition of interest in joint operation and subsidiaries	–	–	28.3	28.3
Impairment of mining tenements – reversal	140.0	–	–	140.0
	(66.4)	**(25.1)**	**31.9**	**(59.6)**
Cash items	**–**	**–**	**–**	**–**
Total capital expenditure	**163.7**	**20.2**	**0.8**	**184.7**
Segment assets	5,113.1	665.2	838.8	6,617.1
Deferred tax assets	79.8	19.8	737.2	836.8
Investment in joint venture	–	–	25.4	25.4
Financial instruments	–	–	0.1	0.1
Total assets	**5,192.9**	**685.0**	**1,601.5**	**7,479.4**

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

There was no impairment charge or other significant non-cash items recognised during the year ended 31 December 2015 and 31 December 2014 other than those disclosed above.

(b) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties for the reportable segments are measured in a manner consistent with that in the Consolidated Statement of Profit and Loss or Other Comprehensive Income.

Revenue from external customers are derived from the sale of coal from operating mines. Segment revenues are allocated based on the country in which the customer is located.

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

	31 December 2015 $M	31 December 2014 $M
Australia (Yancoal's country of domicile)	**27.9**	46.6
Singapore	**315.1**	379.2
South Korea	**426.1**	422.4
China	**106.9**	249.2
Japan	**152.8**	165.4
Taiwan	**68.1**	68.7
All other foreign countries	**190.6**	69.6
Total revenue from external customers	**1,287.5**	1,401.1

Revenues from the top five external customers were $630 million (2014: $917 million) which in aggregate represent approximately 50% (2014: 65%) of the Group's revenues from the sale of coal. These revenues were attributable to the NSW and Queensland coal mining segments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

B – PERFORMANCE

B1 SEGMENT INFORMATION continued

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

	31 December 2015 $M	31 December 2014 $M
Total segment revenue	**1,265.2**	1,374.4
Interest income	**50.4**	53.1
Other revenue	**3.5**	4.2
Total revenue from continuing operations (refer to Note B2)	**1,319.1**	1,431.7

(ii) Operating EBIT

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

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

	31 December 2015 $M	31 December 2014 $M
Operating EBIT	**(200.8)**	(278.2)
Finance costs	**(161.7)**	(164.8)
Remeasurement of royalty receivable	**2.4**	(16.8)
Remeasurement of contingent value right shares	**–**	(3.5)
Foreign exchange gain on interest-bearing liabilities	**–**	24.1
Gain on acquisition of interest in joint operation and subsidiaries	**6.3**	28.3
Impairment reversal of mining tenements	**–**	140.0
Loss before income tax from continuing operations	**(353.8)**	(270.9)

(iii) Segment capitalised expenditure

Amounts with respect to capital expenditure are measured in a manner consistent with that of the financial statements. Reportable segment's capital expenditure is set out in Note B1(a).

All segment assets are located in Australia.

(iv) Segment liabilities

A measure of total liabilities for reportable segments are not provided to the Executive Committee. The Executive Committee reviews the liabilities of the Group at a consolidated level.

B2 REVENUE

Accounting Policies

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

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

(i) Sale of coal

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

(ii) Interest

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

(iii) Other

Other primarily consists of dividends, rents, sub-lease rental and management fees. Dividends are recognised as revenue when the right to receive payment is established. Rental income arising on land surrounding a mine site is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

	31 December 2015 $M	31 December 2014 $M
From continuing operations		
Sales revenue		
Sale of coal	**1,287.5**	1,401.1
Loss on foreign exchange rate contracts	**(22.3)**	(26.7)
	1,265.2	1,374.4
Other revenue		
Interest income	**50.4**	53.1
Other	**3.5**	4.2
	53.9	57.3
	1,319.1	1,431.7

B3 OTHER INCOME

Accounting Policies

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

	31 December 2015 $M	31 December 2014 $M
Gain on remeasurement of royalty receivable	**2.4**	–
Net gain on foreign exchange*	**14.6**	30.2
Gain on acquisition of interest in joint operation and subsidiaries (refer to Note E1)	**6.3**	28.3
Release of R&D provision	**4.1**	–
Sundry income	**6.5**	3.8
	33.9	62.3

* This includes a net foreign exchange gain amounting to $nil (2014: $24.1 million) on the conversion of US dollar denominated interest-bearing liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

B – PERFORMANCE

B4 EMPLOYEE BENEFITS

Accounting Policies

(i) Employee benefits expenses

Employee benefits are expensed as the related service by the employee is provided and includes both equity and cash based payment transactions. Employee benefits recognised in the Statement of Profit or Loss are net of recoveries.

(ii) Superannuation

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

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

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

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

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

(a) Employee benefits expense

	31 December 2015 $M	31 December 2014 $M
Defined contribution superannuation expense	**18.8**	21.7
Other employee benefits expenses	**210.5**	251.0
Total employee benefits expenses from continuing operations	**229.3**	272.7

(b) Key management personnel compensation

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 31 December 2015.

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

	31 December 2015 $	31 December 2014 $
Short-term employee benefits	**4,531,221**	6,935,711
Post-employment benefits	**114,886**	154,113
Other long-term benefits	**1,787,125**	1,624,858
	6,433,232	8,714,682

B5 EXPENSES

	31 December 2015 $M	31 December 2014 $M
(a) Finance costs		
Finance lease charges	**2.3**	2.9
Unwinding of discount on provisions and deferred payables	**6.0**	2.5
Other interest expenses	**153.4**	159.4
Total finance costs from continuing operations	**161.7**	164.8
(b) Other operating expenses		
Rental expense relating to operating leases	**2.1**	2.7
Remeasurement of royalty receivable (refer to Note C9)	**–**	16.8
Remeasurement of contingent value right shares	**–**	3.5
Insurance	**5.6**	7.2
Bank fees and other charges	**116.4**	128.7
Duties and other levies	**10.0**	15.5
Travel and accommodation	**9.5**	9.8
Net loss/(gain) on disposal of property, plant and equipment	**2.5**	(0.3)
Other operating expenses	**0.9**	4.0
Total other operating expenses from continuing operations	**147.0**	187.9

B6 TAXATION

Accounting Policies

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying value of the deferred tax asset is reviewed at each reporting period and reduced to the extent that it is no longer probable that future taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are recognised for taxable temporary differences between the carrying amount and tax bases of investments in controlled entities, except where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

B – PERFORMANCE

B6 TAXATION continued

Tax consolidation legislation

Yancoal Australia Ltd and its wholly owned Australian controlled entities have implemented the tax consolidation legislation for both income tax and previously MRRT purposes. The accounting policy in relation to this legislation is set out in Note E4.

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

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Yancoal Australia Ltd for any current tax payable assumed and are compensated by Yancoal Australia Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Yancoal Australia Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

Critical accounting estimates and judgements

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

(a) Income tax (expense)/benefit

(i) Net tax benefit

	31 December 2015 $M	31 December 2014 $M
Income tax (expense)/benefit	**62.6**	(8.7)
Minerals Resource Rent Tax ("MRRT") expense	**–**	(105.6)
Income tax benefit attributable to MRRT	**–**	31.7
	62.6	(82.6)
Net tax (expenses)/benefit is attributable to:		
Continuing operations	**62.6**	(82.6)
(ii) Income tax benefit		
Deferred tax benefit/(expense)	**62.6**	(8.7)
Deferred tax benefit/(expense) included in income tax benefit comprises:		
Increase in deferred tax assets (refer to Note B6(b)(i))	**213.4**	159.2
Decrease in deferred tax liabilities (refer to Note B6(c)(i))	**(150.8)**	(167.9)
	62.6	(8.7)
(iii) Minerals Resource Rent Tax		
Deferred tax expense	**–**	(105.6)
Income tax benefit attributable to MRRT	**–**	31.7
Deferred tax benefit included in MRRT expense comprises:		
Derecognition of deferred tax balances attributable to MRRT	**–**	(73.9)

Minerals Resource Rent Tax ("MRRT") was abolished on 30 September 2014. Accordingly, the deferred MRRT assets and liabilities have been derecognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(iv) Reconciliation of income tax benefit to prima facie tax payable

	31 December 2015 $M	31 December 2014 $M
Loss from continuing operations before tax	**(353.8)**	(270.9)
Tax at the Australian tax rate of 30% (2013 – 30%)	**106.1**	81.3
Tax effect of amounts which are not deductible/taxable in calculating taxable income:		
Re-measurement of CVR shares (equity interest)	**–**	(1.1)
Share of loss of equity-accounted investees not deductible	**(11.2)**	(18.4)
Gain on acquisition of subsidiaries	**3.4**	8.5
Losses derecognised	**–**	(39.4)
Plant and equipment	**(4.3)**	3.4
Under/over provision in prior years	**(19.3)**	(38.0)
Denial of debt deductions	**(15.8)**	–
Other	**3.7**	(5.0)
Income tax (expense)/benefit	**62.6**	(8.7)

(v) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Cash flow hedges	**(133.9)**	142.4
Subordinated Capital Note transaction costs	**0.3**	4.0
	(133.6)	146.4

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

B – PERFORMANCE

B6 TAXATION continued

(b) Deferred tax assets

(i) Deferred tax assets

	31 December 2015 $M	31 December 2014 $M
Deferred tax assets from income tax	**1,166.2**	836.8

(ii) Income tax

Movements	Tax losses and offsets $M	Intangible assets $M	Provisions $M	Trade and other payables $M	Finance lease liabilities $M	Cash flow hedges $M	Other $M	Total $M
At 1 January 2014	339.5	4.9	42.1	18.6	14.8	100.7	8.7	529.3
Under/over provision in prior year	(48.0)	(6.0)	0.2	7.7	0.2	1.0	(3.5)	(48.4)
(Charged)/credited								
– to profit or loss	259.6	(0.6)	(3.7)	(9.7)	(2.5)	–	2.2	245.3
– directly to equity	–	–	–	–	–	142.4	3.9	146.3
Reclassification to DTL	–	1.7	–	–	–	–	–	1.7
Derecognised tax losses	(39.4)	–	–	–	–	–	–	(39.4)
Acquisition of subsidiaries	–	–	2.0	–	–	–	–	2.0
At 31 December 2014	511.7	–	40.6	16.6	12.5	244.1	11.3	836.8
At beginning of year	511.7	–	40.6	16.6	12.5	244.1	11.3	836.8
Under/over provision in prior year								
– to profit or loss	170.8	–	–	0.5	–	(126.8)	15.3	59.8
– directly to equity	–	–	–	–	–	–	0.5	0.5
– other	–	–	–	–	–	–	(1.8)	(1.8)
(Charged)/credited								
– to profit or loss	151.7	–	13.3	0.1	(2.6)	–	(8.9)	153.6
– directly to equity	–	–	–	–	–	133.9	(0.8)	133.1
– other	–	–	–	–	–	–	4.9	4.9
Transfer to assets classified as held for sale	–	–	(10.6)	(7.0)	(0.6)	–	(2.5)	(20.7)
At 31 December 2015	834.2	–	43.3	10.2	9.3	251.2	18.0	1,166.2

Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilised. The Group has unrecognised capital tax losses (tax effected) of $1.9 million (2014: capital tax losses $1.9 million). There is no expiry date on these tax losses.

(c) Deferred tax liabilities

(i) Deferred tax liabilities

	31 December 2015 $M	31 December 2014 $M
Deferred tax liabilities from income tax	**692.1**	749.0

(ii) Income tax

Movements	Property, plant and equipment $M	Intangible assets $M	Inventories $M	Mining tenements and exploration and evaluation assets $M	Deferred mining costs $M	Unrealised foreign exchange gains $M	Other $M	Total $M
At 1 January 2014	31.6	–	10.3	431.8	6.6	45.9	13.6	539.8
Under/over provision in prior year	9.5	–	–	(21.0)	–	1.0	0.1	(10.4)
Charged/(credited)								
– to profit or loss	10.3	–	0.2	33.0	(2.1)	132.9	2.1	176.4
Reclassification from DTA	–	1.7	–	–	–	–	–	1.7
Acquisition of subsidiaries	4.2	–	–	37.3	–	–	–	41.5
At 31 December 2014	55.6	1.7	10.5	481.1	4.5	179.8	15.8	749.0
At 1 January 2015	55.6	1.7	10.5	481.1	4.5	179.8	15.8	749.0
Under/over provision in prior year	(1.2)	–	–	207.0	–	(126.6)	(0.1)	79.1
Charged/(credited)								
– to profit or loss	48.6	0.7	3.0	16.1	(2.2)	4.0	1.3	71.5
– unrecognised	0.2	–	–	–	–	–	–	0.2
Transfer to liabilities associated with assets classified as held for sale	(41.6)	(0.3)	(5.4)	(157.2)	(2.3)	(1.1)	0.2	(207.7)
At 31 December 2015	61.6	2.1	8.1	547.0	–	56.1	17.2	692.1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

B – PERFORMANCE

B7 LOSS PER SHARE

Accounting Policies

(a) Basic loss per share

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

(b) Diluted loss per share

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

(a) Basic and diluted loss per share

	31 December 2015 $	31 December 2014 $
From continuing operations	**(0.29)**	(0.36)
Total basic and diluted loss per share	**(0.29)**	(0.36)

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

	31 December 2015 $M	31 December 2014 $M
Basic and diluted loss per share		
Loss used in calculating diluted loss per share:		
From continuing operations	**(291.2)**	(353.5)
	(291.2)	(353.5)

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

	31 December 2015 Number	31 December 2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share (refer to Note D4)	**994,216,659**	994,216,659
Adjustments for calculation of basic loss per share:		
Weighted average number of potential ordinary shares used as the denominator in calculating diluted loss per share space	**–**	–
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted loss per share	**994,216,659**	994,216,659

The potential conversion of subordinated capital notes into ordinary shares has an anti-dilutive impact as the Group is loss making and is therefore excluded from the weighted average number of ordinary shares for the purpose of diluted loss per share. There are 18,005,102 SCNs on issue. Each note is convertible into 1,000 ordinary shares at the option of the holder within 30 years.

C – OPERATING ASSETS AND LIABILITIES

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

C1 PROPERTY, PLANT AND EQUIPMENT

Accounting Policies

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

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

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

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

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

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

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

Refer to Note C11 for information regarding the capitalisation and amortisation of longwall panel development.

Open cut

During the commercial production stage of open pit operations, production stripping costs comprises the accumulation of expenses incurred to enable access to the coal seam, and includes direct removal costs (inclusive of an allocation of overhead expenditure) and machinery and plant running costs.

Production stripping costs are capitalised as part of an asset, if it can be demonstrated that it is probable that future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. The asset is called "stripping activity asset".

The stripping activity asset is amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied.

Production stripping costs that do not satisfy the asset recognition criteria are expensed.

Depreciation and amortisation

The depreciable amount of all fixed assets, excluding freehold land, is depreciated on a straight-line or units of production basis over the asset's useful life to the Group based on life of mine plans and Joint Ore Reserves Committee (JORC) estimated reserves, commencing from the time the asset is held ready for use. Leased assets are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

For some assets, the useful life of the asset is linked to the level of production. In such cases, depreciation is charged on a units of production basis based on the recoverable reserves or the remaining useful hours. Alternatively, the straight-line method may be used where this provides a suitable alternative because production is not expected to fluctuate significantly from one year to another.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and any change in estimate is taken into account in the determination of remaining depreciation charges.

The estimated useful lives are as follows:

- Buildings 10 – 25 years
- Mine development 10 – 25 years
- Plant and equipment 2.5 – 25 years
- Leased plant and equipment 2 – 20 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Any gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

See note C3 for further details on impairment of assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

C – OPERATING ASSETS AND LIABILITIES

C1 PROPERTY, PLANT AND EQUIPMENT continued

	Assets under construction $M	Freehold land & buildings $M	Mine develop-ment $M	Plant and equipment $M	Leased plant and equipment $M	Leasehold land $M	Total $M
Year ended 31 December 2014							
Opening net book amount	273.9	221.8	425.3	866.3	49.1	0.1	1,836.5
Transfers – assets under construction	(139.7)	4.0	77.0	56.7	–	–	(2.0)
Acquisition through business combination	3.6	24.7	8.9	13.4	–	–	50.6
Other additions	164.7	–	11.4	4.3	–	–	180.4
Other disposals	–	–	–	(0.3)	–	–	(0.3)
Depreciation charge	–	(3.2)	(46.5)	(104.8)	(3.8)	–	(158.3)
Closing net book amount	302.5	247.3	476.1	835.6	45.3	0.1	1,906.9
At 31 December 2014							
Cost or fair value	302.5	259.3	624.5	1,333.6	56.5	0.1	2,576.5
Accumulated depreciation	–	(12.0)	(148.4)	(498.0)	(11.2)	–	(669.6)
Net book amount	302.5	247.3	476.1	835.6	45.3	0.1	1,906.9
Year ended 31 December 2015							
Opening net book amount	302.5	247.3	476.1	835.6	45.3	0.1	1,906.9
Transfers – assets under construction	(306.4)	8.4	186.2	109.9	–	–	(1.9)
Transfers – reclassification	–	(0.7)	0.7	–	–	–	–
Acquisition through business combination	1.2	0.5	0.6	3.8	–	–	6.1
Other additions	281.2	0.3	47.0	4.9	–	–	333.4
Other disposals	–	–	–	(2.5)	–	–	(2.5)
Depreciation charge	–	(3.4)	(46.0)	(94.2)	(3.9)	–	(147.5)
Transfer to assets classified as held for sale	(43.6)	(80.9)	(361.4)	(355.4)	(3.0)	–	(844.3)
Closing net book amount	234.9	171.5	303.2	502.1	38.4	0.1	1,250.2
At 31 December 2015							
Cost	234.9	182.0	374.7	760.6	53.0	0.1	1,605.3
Accumulated depreciation	–	(10.5)	(71.5)	(258.5)	(14.6)	–	(355.1)
Net book amount	234.9	171.5	303.2	502.1	38.4	0.1	1,250.2

During the year ended 31 December 2015 $14.3 million of depreciation and amortisation was capitalised (2014 $4.7 million) and $6.7 million of interest was capitalised (2014 nil).

(a) Non-current assets pledged as security

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

C2 MINING TENEMENTS

Accounting Policy

Mining tenements have a finite useful life and are carried at cost less any accumulated amortisation and accumulated impairment losses.

Mining tenements are amortised from the date when commercial production commences, or the date of acquisition. Amortisation is calculated over the life of the mine on a 'units of production' method based on the Joint Ore Reserves Committee (JORC) estimated reserves.

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

Every year the mining tenement's carrying amount is compared to its recoverable amount and assessed for impairment, or for possible reversals of prior year impairment.

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

	31 December 2015 $M	31 December 2014 $M
Opening net book amount	**2,466.2**	2,251.8
Acquisition through business combination	**25.1**	149.9
Reversal of provision for impairment	**–**	140.0
Amortisation for the period	**(64.3)**	(75.5)
Transfer to assets classified as held for sale	**(342.5)**	–
Closing net book amount	**2,084.5**	2,466.2

Critical accounting estimates and judgements

Coal reserves and resources

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

C – OPERATING ASSETS AND LIABILITIES

C3 IMPAIRMENT OF ASSETS

Accounting policy

(i) Long-term assets

Mining tenements and goodwill are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognised immediately in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Mining tenements and other non-financial assets (excluding goodwill) that have previously suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

For the purposes of assessing impairment, assets are grouped into Cash Generating Units (CGU), being the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to CGUs that are expected to benefit from the synergies of the combination.

The Group assesses impairment by evaluation of conditions and events specific to the Company that may be indicative of impairment triggers.

(ii) Other financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

Critical accounting estimates and judgements

The determination of fair value and value in use requires management to make estimates and assumptions about expected production and sales volumes, coal prices (considering current and historical prices, price trends and related factors), foreign exchange rates, coal resources and reserves (refer to C2), operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying amount of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of profit or loss.

(a) Impairment assessment

The Group operates on a regional basis within NSW and as such the NSW mines are considered to be one CGU. Due to the classification of the three NSW underground mines as assets classified as held for sale (refer to Note D1) the NSW regional CGU comprises the open cut mines Moolarben and Stratford/Duralie. Yarrabee and Middlemount are considered separate CGUs due to location and ownership structure.

(b) Assessment of fair value

Each CGU's fair value less costs of disposal has been determined using a discounted cash flow model over the expected life on mine (10 – 25 years). The fair value model adopted has been categorised as level 3 in the fair value hierarchy.

The key assumptions in the model include:

Key assumptions	Description
Coal prices	The Group's cash flow forecasts are based on estimates of future coal prices, which assume benchmark prices will revert to the group's assessment of the long-term real coal prices of USD 55 – USD 109 per tonne (2014: USD 76 – USD 108 per tonne) for thermal and USD 91 – USD 166 per tonne (2014: USD 98 – USD 184 per tonne) for metallurgical coal. The Group receives long-term forecast coal price data from multiple external sources when determining its benchmark coal price forecasts and then makes adjustments for specific coal qualities. For both thermal and metallurgical coal the Group's forecast coal price is within the range of external price forecasts.
Foreign exchange rates	The long-term AUD/USD forecast exchange rate of $0.73 (2014: $0.78) is based on external sources. The year-end AUD/USD exchange rate was $0.73 per the Reserve Bank of Australia.
Production and capital costs	Production and capital costs are based on the Group's estimate of forecast geological conditions, stage of existing plant and equipment and future production levels. This information is obtained from internally maintained budgets, the five year business plan, life of mine models, life of mine plans, JORC reports, and project evaluations performed by the Group in its ordinary course of business.
Coal reserves and resources	See discussion at Note C2 Mining tenements for how the coal reserves and resources are determined.
Discount rate	The Group has applied a post-tax discount rate of 10.5% (2014: 11%) to discount the forecast future attributable post-tax cash flows. The rate reduction reflects the reclassification of the underground mines. The post-tax discount rate applied to the future cash flow forecasts represents an estimate of the rate the market would apply having regard to the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. This rate is also consistent with the Group's five year business plan, life of mine models and project evaluations performed in ordinary course of business.

Based on the above assumptions at 31 December 2015 the recoverable amount is determined to be above book value for all CGU's resulting in no further impairment.

Impairment provisions recorded as at 31 December 2015 are $108 million for Moolarben and $73 million for Stratford and Duralie. Moolarben and Stratford and Duralie are both included in the NSW region CGU. Management may consider reversals of the impairment provision previously recognised if there is either an increase in the average long-term real revenue over the life of the mine due to either an increase in USD coal prices, or a further weakening of the AUD/USD foreign exchange rate or a combination of both, or further reductions in the current and life of mine operating costs, capital expenditure requirements, or an increase in the reserves.

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

(c) Key sensitivity

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

If coal prices were -10% LOM the NSW CGU recoverable amount would exceed book value however for Yarrabee the book value would exceed the recoverable amount by $267 million and for Middlemount by $103 million. If the AUD/USD long-term forecast exchange rate was $0.80 the NSW CGU recoverable amount would exceed book value however for Yarrabee the book value would exceed the recoverable amount by $184 million and for Middlemount by $30 million.

Goodwill

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

C – OPERATING ASSETS AND LIABILITIES

C4 EXPLORATION AND EVALUATION ASSETS

Accounting Policies

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

Exploration and evaluation assets acquired in a business combination are recognised at their fair value at the acquisition date. The carrying amount of exploration and evaluation assets are assessed for impairment when facts or circumstances suggest the carrying amount of the assets may exceed their recoverable amount. A regular review is undertaken for each area of interest to determine the appropriateness of continuing to carry forward costs in relation to each area of interest. Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, the exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining tenements.

Critical accounting estimates and judgements

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If after expenditure is capitalised information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period when the new information becomes available.

	31 December 2015 $M	31 December 2014 $M
Opening net book amount	**896.0**	909.1
Remeasurement through business combination	**3.4**	(17.9)
Other additions	**2.2**	4.8
Transfer to assets classified as held for sale	**(311.1)**	–
Closing net book amount	**590.5**	896.0

C5 INTANGIBLES

Accounting Policies

(i) Goodwill

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

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

See Note C3 for further details on impairment of assets.

(ii) Computer software

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

(iii) Access rights and other mining licences

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

	Goodwill $M	Computer software $M	Access rights & other licences $M	Total $M
At 1 January 2014				
Cost	97.2	19.4	1.7	118.3
Accumulated amortisation	–	(4.6)	(0.2)	(4.8)
Net book amount	97.2	14.8	1.5	113.5
Year ended 31 December 2014				
Opening net book amount	97.2	14.8	1.5	113.5
Acquisition through business combination	(36.9)	–	3.1	(33.8)
Transfers – assets under construction	–	2.0	–	2.0
Amortisation charge	–	(2.5)	(0.1)	(2.6)
Closing net book amount	60.3	14.3	4.5	79.1
At 31 December 2014				
Cost	60.3	20.9	4.8	86.0
Accumulated amortisation	–	(6.6)	(0.3)	(6.9)
Net book amount	60.3	14.3	4.5	79.1
Year ended 31 December 2015				
Opening net book amount	60.3	14.3	4.5	79.1
Other additions	–	0.2	–	0.2
Transfers – assets under construction	–	1.9	–	1.9
Amortisation charge	–	(2.8)	(0.1)	(2.9)
Transfer to assets classified as held for sale	–	(1.4)	(4.4)	(5.8)
Closing net book amount	60.3	12.2	–	72.5
At 31 December 2015				
Cost	60.3	24.0	–	84.3
Accumulated amortisation	–	(11.8)	–	(11.8)
Net book amount	60.3	12.2	–	72.5

The goodwill at 31 December 2015 relates to the acquisition of Yancoal Resources Limited (formally known as Felix Resources Limited) from an independent third party in an arms length transaction and was allocated to the Yarrabee mine. Refer to Note C3 for the details regarding the fair value less cost to sell calculation performed at 31 December 2015. The CGU for which goodwill was allocated was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

C – OPERATING ASSETS AND LIABILITIES

C6 CASH AND CASH EQUIVALENTS

Accounting Policies

For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes:

(i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and

(ii) other short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	31 December 2015 $M	31 December 2014 $M
Cash at bank and in hand	**89.4**	92.4
Deposits at call	**69.6**	111.2
	159.0	203.6
Transfer to assets classified as held for sale	**4.6**	–
	154.4	203.6

(a) Risk exposure

The Group's exposure to interest rate risk and credit risk is discussed in Note D8. The maximum exposure to credit risk on the cash and cash equivalents balance at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

C7 TRADE AND OTHER RECEIVABLES

Accounting Policies

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. After initial recognition, trade and other receivables are carried at amortised cost using the effective interest method.

	31 December 2015 $M	31 December 2014 $M
Current		
Trade receivables	**157.2**	224.2
Advances to controlled entities	**2.3**	–
Other receivables (i)	**42.0**	58.9
Cash – restricted (refer to Note D2(b))	**2.5**	5.7
Promissory note receivable (ii)	**21.2**	21.2
	225.2	310.0
Non-current		
Receivables from joint venture (refer to Note E3(c))	**331.1**	340.0
Receivables from other entities (iv)	**46.8**	47.3
Cash – restricted	**1.0**	0.2
	378.9	387.5

(i) Other receivables includes a stamp duty refund receivable of $14.2 million (2014: $14.2 million).The stamp duty refund receivable is subject to ongoing discussions with the New South Wales Office of State Revenue and management expect that this amount will be refunded within the next 12 months.

(ii) Promissory notes to the value of $674.3 million were issued to the Group by Yanzhou Coal Mining Company Limited on 22 June 2012 on the disposal of certain mining assets, including promissory notes of $21.2 million with regard to the expected tax on the disposal. Management believe that this will be settled within the next 12 months.

(iii) Receivables from joint venture includes a loan provided to Middlemount Coal Pty Ltd ("Middlemount") with a face value of $349.9 million. From 1 July 2015 the shareholders of Middlemount agreed to make the loan interest free for 18 months. At 31 December 2015 this loan has been revalued using the effective interest rate method to $331.1 million with the difference being recognised as a contribution to the joint venture.

(iv) Receivables from other entities represent the Group's investment in securities issued by Wiggins Island Coal Export Terminal Pty Ltd ("WICET"). These include E Class Wiggins Island Preference Securities ("WIPS") of $15.3 million (2014: $15.3 million) and Gladstone Long-Term Securities ("GiLTS") of $31.5 million (2014: $31.5 million).

(a) Past due but not impaired

As at 31 December 2015, there were no trade receivables that were past due (2014: nil).

The stamp duty refund receivable (refer to Note C7(i)) and the promissory note receivable (refer to Note C7(ii)) are subject to ongoing discussions with the parties involved and management believe that these discussions will be concluded and the full amount will be received within next the 12 months and therefore not impaired. The Group does not hold any collateral in relation to these receivables. The other classes within trade and other receivables (other than Middlemount receivable as detailed in (iii) above) do not contain impaired assets and are not past due. It is expected that these amounts will be received when due.

(b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note D8.

(c) Fair value and credit risk

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

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note D8 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

C8 INVENTORIES

Accounting Policies

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

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

	31 December 2015 $M	31 December 2014 $M
Coal – at lower of cost or net realisable value	**49.2**	77.9
Tyres and spares – at cost	**26.0**	33.5
Fuel – at cost	**1.0**	1.3
	76.2	112.7

(a) Inventory expense

Write downs of inventories to net realisable value recognised as a provision at 31 December 2015 amounted to $12.1 million (2014: $6.3 million). The movement in the provision has been included in "Changes in inventories of finished goods and work in progress" in the Consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

C – OPERATING ASSETS AND LIABILITIES

C9 ROYALTY RECEIVABLE

Accounting Policies

The royalty receivable is re-valued at each reporting period based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates. Gains or losses arising from changes in the fair value of the royalty receivable is recognised in profit or loss. The cash receipts will be recorded against the royalty receivable which will be decreased over time. Since the contract is long-term, unwinding of the discount (to reflect the time value of money) for the asset will be recognised under interest income.

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

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

Critical accounting estimates and judgements

The fair value of the royalty receivable is estimated based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates.

	31 December 2015 $M	31 December 2014 $M
Opening balance	**199.2**	208.9
Cash received/receivable	**(17.9)**	(15.2)
Unwinding of the discount	**21.2**	22.3
Re-measurement of royalty receivable	**2.4**	(16.8)
	204.9	199.2
Split between:		
Current	**19.7**	17.8
Non-current	**185.2**	181.4
	204.9	199.2

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

(a) Risk exposure and fair value measurements

Information about the Group's exposure to price risk, foreign exchange risk and methods and assumptions used in determining fair value of the royalty receivable is provided in Note D8.

C10 PROVISIONS

Accounting Policies

Provisions are:

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

– measured at the present value of the management's best estimate at reporting date of the cash outflow required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability where the time value is material. Any increase in the provision due to the passage of the time is recognised as an interest expense.

2015	Employee benefits $M	Rehab-ilitation $M	Take or pay $M	R&D $M	Other provisions $M	Total $M
Opening net book amount	0.6	72.7	56.3	23.0	7.0	159.6
Charged/(credited) to profit or loss						
– unwinding of discount	–	1.9	4.0	–	–	5.9
– release of the provision	–	–	(14.4)	(23.0)	0.9	(36.5)
– rehabilitation expenditure incurred	–	(1.2)	–	–	–	(1.2)
Re-measurement of provisions	0.2	42.3	–	–	(1.7)	40.8
Additions on business combination	–	0.2	4.8	–	–	5.0
Asset held for sale	–	(30.8)	–	–	–	(30.8)
Closing net book amount	0.8	85.1	50.7	–	6.2	142.8
Split between:						
Current	0.7	0.5	10.2	–	1.0	12.4
Non-Current	0.1	84.6	40.5	–	5.2	130.4
Total	0.8	85.1	50.7	–	6.2	142.8

Provision	Description
Employee benefits	The provision for employee benefits represents long service leave and annual leave entitlements and other incentives accrued by employees.
Rehabilitation costs	Mining lease agreements and exploration permits impose obligations on the Group to rehabilitate areas where mining activity has taken place. Rehabilitation of these areas is ongoing and in some cases will continue until 2032. The provision for rehabilitation costs has been calculation based on the present value of the future costs expected to be incurred in restoring affected mining areas, assuming current technologies. **Key estimate and judgement:** The rehabilitation provision has been created based on managements' internal estimates and assumptions relating to the current economic environment, which management believes is a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions: however, actual rehabilitation costs will ultimately depend upon the future market prices for the necessary decommissioning works and the timing of when the rehabilitation costs are incurred. Timing is dependent upon when the mines ceases to produce at economically viable rates, which in turn, will depend upon future coal prices, which are inherently uncertain.
Take or pay	In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 Business Combinations. Take or pay is the assessment of forecast excess capacity for port and rail contracts. A provision was recognised for the discounted estimated excess capacity. The provision has a finite life and will be released to profit or loss over the period in which excess capacity is realised. **Key estimate and judgement:** The provision is recognised and estimated based on management's assessment of contracted port capacity versus forecast usage. This involves making assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits.
R&D	The provision is in respect of tax claims made in relation to the Ashton R&D project, which was under review by both AusIndustry/Innovation Australia and the Australia Taxation Office. During the period settlement has been reached and amended assessments have been issued.
Other provisions	The provision includes marketing services fee payable to Noble Group Limited deemed above market norms and make good provisions to cover the cost to 'make good' any hired equipment, in case any major overhaul costs are incurred at the end of the lease period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

C – OPERATING ASSETS AND LIABILITIES

C11 OTHER ASSETS

Accounting Policies

(a) Deferred mining cost – underground

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

(b) Prepayments

Prepayments are recorded at cost and expensed over future accounting period to which it relates.

(c) Customer contracts

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

	31 December 2015 $M	31 December 2014 $M
Current		
Prepayments	**11.7**	17.4
Deferred mining costs (i)	**–**	7.3
	11.7	24.7
Non-current		
Prepayments	**9.5**	18.7
Deferred mining costs	**–**	7.9
Customer contracts (ii)	**–**	4.6
	9.5	31.2

(i) During the year ended 31 December 2015, the Group's underground operations deferred $13.2 million (2014: $13.7 million) in respect of longwall panel development and released $7.3 million (2014: $20.6 million) to the Consolidated statement of profit or loss and other comprehensive income. This is based on the production metres developed/retreated from the underground longwall operations during the year. $13.2 million of current and $7.9 million of non-current deferred mining costs was transferred to assets classified as held for sale at 31 December 2015.

(ii) Non-current customer contracts balance of $4.6 million was transferred to assets classified as held for sale at 31 December 2015.

D – CAPITAL STRUCTURE AND FINANCING

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

D1 ASSETS CLASSIFIED AS HELD FOR SALE

Accounting Policies

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale or loss of control transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale or disposal in its present condition subject only to terms that are usual and customary for sales or disposals of such assets (or disposal group) and the transaction is highly probable. Management must be committed to the transaction, which should be expected to qualify for recognition as a completed transaction within one year from the date of classification.

When the Group is committed to a sale plan or other transaction involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Critical judgements

Watagan is a held for sale asset as it will be deconsolidated on completion of the transaction outlined below. Even though the Group will hold 100% of the nominal share capital in Watagan the Directors have assessed that the Group will lose control as it will not be able to direct the relevant activities of Watagan. Further details regarding the assessment of control are included below.

(a) Watagan Mining Company Pty Ltd

During the year the Group established a 100% owned subsidiary, Watagan Mining Company Pty Ltd ("Watagan"). On 18 February 2016, the Group executed a Bond Subscription Agreement, together with other agreements (the "Watagan Agreements") that, on completion, will transfer the Group's interest in three of its 100% owned NSW coal mining operations, being the Austar, Ashton and Donaldson coal mines (the "three mines"), to Watagan for a purchase price of approximately $1.3 billion (an amount equal to the book value of the three mines at completion). The purchase price will be funded by way of an approximate $1.3 billion loan from Yancoal to Watagan bearing interest at BBSY plus 7.06% with a maturity date of 1 April 2025. The outstanding interest and principal of this loan is guaranteed by Yankuang Group Co., Ltd (Yankuang), the Group's ultimate parent entity. The completion date of the transaction is expected to be 31 March 2016.

On completion Watagan will issue USD760 million of debt bonds with a term of approximately 9 years to three external financiers ("Bondholders"). Watagan will issue up to a further USD190 million of debt bonds to two of the Bondholders prior to 30 September 2016. The Bondholders will receive interest on the face value outstanding on the bonds comprising a fixed interest component, as well as a variable interest component that is tied to the EBITDA performance of Watagan. Under the terms of the Watagan Agreements, it was determined that upon issuance of the bonds the Group will lose control of Watagan. This loss of control is determined to occur on the issuance date of the bonds on the basis that the power over the key operating and strategic decisions of Watagan will no longer reside with the Group. Specifically, these powers will be transferred to the Bondholders under the terms of the Watagan Agreements as the Bondholders will be given control of Watagan's board of directors via appointment of the majority of directors. This loss of control will result in the Group de-consolidating the consolidated results of Watagan from the transaction completion date. Due to the Watagan transaction being near completion and the transaction is considered to be highly likely at 31 December 2015, the three mines are disclosed as Assets Held for Sale at that date.

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

(b) Carrying value of assets held for sale

In applying the held for sale classification to the three mines as at 31 December 2015, the Group determined the fair value less costs to sell to be above the carrying value, and as a result no adjustment was recorded on classification as held for sale.

Fair value less costs to sell of the mines has been determined using a discounted cash flow model. The key assumptions to which the model is most sensitive includes coal prices, foreign exchange rates, production and capital costs, discount rate and coal reserves and resources. More details on these assumptions is included in Note C3. The Group has applied a post-tax discount rate of 11% to discount the forecast future attributable post-tax cash flows of the three underground mines reflecting the risks specific to the asset for which the future cash flow estimates have not been adjusted.

The Group performed various sensitivities to the determination of fair value which indicated a -10% LOM coal price assumption across all periods would have resulted in the carrying value exceeding fair value by $153 million whilst an increase in the long-term AUD:USD foreign exchange rate to 0.80 would have resulted in the carrying value exceeding fair value by $32 million.

The three mines are reported in the Coal Mining NSW segment in Note B1.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

D1 ASSETS CLASSIFIED AS HELD FOR SALE continued

(c) The Group's ongoing involvement with Watagan

Together with the Bond Subscription Agreement, the Watagan Agreements include a:

– 10 year Management and Mine Services Agreement appointing (1) Yancoal as the exclusive provider of management services (being back office support functions) to the Watagan group; and (2) a 100% owned Yancoal subsidiary as the exclusive provider of all mining management services (being all work directly concerned with the management of the operations of the three mines) to the Watagan group; and

– 10 year Marketing and Logistics Representation and Logistics Agreement appointing Yancoal as (1) the sole and exclusive marketing and logistics representative of the Watagan group for the promotion, marketing, sale, transportation and handling of all saleable coal produced from the three mines and the purchase of any coal for the Watagan group from third parties; and (2) the sole and exclusive provider of infrastructure services and representative of the Watagan group in relation to management of the port and rail access and rail haulage contracts in relation to the three mines.

These agreements can be terminated without cause by either party subject to certain termination payments.

Given the Group will maintain one seat on the Watagan board and will have ongoing involvement under the terms of the Watagan Agreements, the Group has been determined to have significant influence over Watagan. As a result, the Group will equity account its 100% equity interest from the date control is lost. The Group will account for the approximate $1.3 billion loan from Watagan consistent with its accounting policy for financial assets. Accordingly this loan will be subject to impairment testing when there is objective evidence that the loan is impaired (see note C3). Under the guarantee, Yankuang will indemnify Yancoal for any amounts due and payable under the loan which are not paid by Watagan.

The assessment of control is performed at a point in time. Accordingly, at the end of the term of the Bond Subscription Agreement in 2025, or earlier if power over Watagan is determined to pass back to the Group, the Group would reconsolidate Watagan's results from the point control is regained, and this re-acquisition would be treated as a business combination (see note E1). Additionally, the Bondholders have a put option that allows them to put the Bonds to Yankuang at approximately years three, five, seven, and nine of the bond term, or on an event of default after year three. Exercise of this put option would also result in the Group regaining control of Watagan.

(d) Summarised financial information

The following table provides summarised financial information for the three mines that are held for sale as at 31 December 2015. The information disclosed reflects the three mines' share of the Group's aggregated assets and liabilities.

	31 December 2015 $M
Cash and cash equivalents	4.6
Other current assets	95.2
Current assets	**99.8**
Property, plant and equipment	844.3
Mining Tenements	342.5
Exploration and evaluation assets	311.1
Other non-current assets	39.6
Non-current assets	**1,537.5**
Total assets/Assets classified as held for sale	**1,637.3**
Current liabilities	**75.1**
Deferred tax liability	207.7
Other non-current liabilities	38.9
Non-current liabilities	**246.6**
Total liabilities/Liabilities associated with assets classified as held for sale	**321.7**
Net assets/Net assets classified as held for sale	**1,315.6**

(e) Pro forma balance sheet and profit and loss

Pro forma balance sheet

Had the three mines not been classified as assets held for sale the Group's consolidated balance sheet as at 31 December 2015 would have been as set out below.

	Reported balance sheet $M	Assets classified as held for sale $M	Pro forma balance sheet $M
Cash and cash equivalents	154.4	4.6	159.0
Trade receivables	225.2	31.3	256.5
Inventories	76.2	46.8	123.0
Other current assets	31.4	17.1	48.5
Assets classified as held for sale	1,637.3	(1,637.3)	–
Current assets	**2,124.5**	**(1,537.5)**	**587.0**
Exploration and evaluation assets	590.5	311.1	901.6
Property, plant and equipment	1,250.2	844.3	2,094.5
Mining tenements	2,084.5	342.5	2,427.0
Deferred tax assets	1,166.2	20.7	1,186.9
Other non-current assets	653.8	18.9	672.7
Non-current assets	**5,745.2**	**1,537.5**	**7,282.7**
Trade and other payables	292.2	74.3	366.5
Other current liabilities	24.3	0.8	25.1
Liabilities associated with assets classified as held for sale	321.7	(321.7)	–
Current liabilities	**638.2**	**(246.6)**	**391.6**
Deferred tax liabilities	692.1	207.7	899.8
Provisions	130.4	30.8	161.2
Other non-current liabilities	–	6.6	6.6
Interest bearing liabilities	4,720.6	1.5	4,722.1
Non-current liabilities	**5,543.1**	**246.6**	**5,789.7**
Contributed equity	3,103.0	–	3,103.0
Reserves	(879.9)	–	(879.9)
Accumulated losses	(534.8)	–	(534.8)
Total equity	**1,688.3**	**–**	**1,688.3**

Had the Group lost control of Watagan from 1 January 2015, the deconsolidation would have resulted in the Group's revenue and expenses for the year ended 31 December 2015 decreasing/(increasing) by the following amounts:

	Reported profit and loss $M	Deconsolidated assets classified as held for sale $M	Pro forma profit and loss $M
Revenue	1,353.0	239.0	1,114.0
Expenses	(1,706.8)	(252.7)	(1,454.1)
Loss before tax	**353.8**	**13.7**	**340.1**
Income tax benefit	**(62.6)**	**(43.9)**	**(18.7)**
Loss after tax	**291.2**	**(30.2)**	**321.4**

Had the Group lost control of Watagan from 1 January 2015, the deconsolidation would have resulted in the Group's net asset held for sale of $1,315.6 million being replaced with a loan receivable from Watagan of $1,315.6 million.

In the year ended 31 December 2015, the three mines contributed $12.8 million to the operating cash outflow of the Group and $116.6 million of capital expenditure. The operating cashflow difference to the loss after tax shown above is due to depreciation, amortisation, tax and other non-cash expenses.

The profit and loss, balance sheet and cash flow impacts noted above exclude the impact to the Group from its ongoing involvement with Watagan following the loss of control. Such as marketing, management and logistics fees.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

D2 INTEREST-BEARING LIABILITIES

Accounting Policies

(i) Interest-bearing liabilities

Interest-bearing liabilities (excluding financial guarantees) are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. US dollar interest bearing loans are designated as a hedge instrument in a cash flow hedge (refer to note D6).

(ii) Leases

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

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

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

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

(iii) Borrowing costs

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

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

	31 December 2015 $M	31 December 2014 $M
Current		
Secured bank loans	**7.2**	6.8
Secured lease liabilities (refer to Note F1(b))	**3.7**	8.1
	10.9	14.9
Non-current		
Secured bank loans	**3,750.8**	3,346.7
Secured lease liabilities (refer to Note F1(b))	**27.1**	33.1
Unsecured loans from related parties	**942.7**	385.3
	4,720.6	3,765.1
Total interest-bearing liabilities	**4,731.5**	3,780.0

(a) Secured bank loans

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

		31 December 2015		31 December 2014	
	Facility $M	Facility AUD $M	Utilised AUD $M	Facility AUD $M	Utilised AUD $M
Secured bank loans					
Syndicated facility (i)	USD 2,600	3,558.7	3,558.7	3,170.0	3,170.0
Bi-lateral facility (i)	USD 140	191.6	191.6	170.7	170.7
Chattel mortgage (ii)	USD 21.7	29.7	7.7	26.5	12.8
Working capital facility (iii)	AUD 50	50.0	–	–	–
		3,830.0	3,758.0	3,367.2	3,353.5

(i) Syndicated facility and Bi-Lateral facility

In 2009 a Syndicated loan facility of US$2,600 million and Bi-lateral loan facility of USD140 million were taken out and fully drawn down to fund the acquisition of the Felix Resources Group. During 2014, the Syndicated Facility was extended with repayments due in 2020, 2021 and 2022.

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

The Syndicated Facility and Bilateral Facility includes the following financial covenants to be tested half-yearly:

(a) The gearing ratio of the Group will not exceed 0.90 on 30 June 2014 and 0.80 on 31 December 2014 and thereafter;

(b) The interest cover ratio will not be less than 1.15 for the twelve month period ended on 30 June 2017; and

(c) The consolidated net worth of the Group is not less than AUD1,600 million on 31 December 2014 and thereafter.

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

The interest cover ratio financial covenant for the twelve month period ended on 31 December 2015 has not been tested as the latest amendment to the facility deferred testing until 30 June 2017.

The Syndicated Facility and Bilateral Facility also include the following minimum balance requirements to be satisfied daily and at each end of month:

(a) The Company is to maintain in the Lender Accounts an aggregate daily average balance of not less than AUD25 million, this is tested at the end of each month; and

(b) The Company is to maintain in the Lender Accounts an aggregate end of month balance of not less than AUD50 million.

(ii) Chattel Mortgage Facility

As a result of the Gloucester Coal Ltd acquisition during 2012, the Group acquired a chattel mortgage facility of USD21.7 million. The balance of the facility at 31 December 2015 was USD5.6 million.

The outstanding balance of the loan is secured by a bank guarantee of USD7.6 million issued by Westpac Banking Corporation. Security is also held in the form of eleven trucks with a carrying value of $12.2 million.

(iii) Working Capital Facility

During the year a working capital facility was taken out to fund working capital and capital expenditure. The facility is for up to AUD50 million. At 31 December 2015, no amounts were drawn down.

Security is held in the form of a corporate guarantee issued by the Company's majority shareholder Yanzhou for the full amount of the facility.

(b) Bank guarantee facilities

Yancoal are party to the following bank guarantee facilities which have been issued for operational purposes in favour of port, rail, government departments and other operational functions:

Provider	Facility $M	Utilised $M	Security
CBA, Westpac	350.0	298.5	Yarrabee, Ashton, and Moolarben mine assets with a carrying value of $3,247 million.
Bank of China	47.0	37.4	Letter of comfort from Yanzhou to Bank of China for the full amount of the facility.
ICBC	125.0	122.3	Cash deposit of $2.5 million on $25 million of the facility, included in restricted cash (refer to Note C7) and a corporate guarantee provided by Yanzhou to ICBC for the remaining $100 million.
Total	522.0	458.2	

(c) Unsecured loans from related parties

In December 2014, the Company successfully arranged two long-term loan facilities from its majority shareholder, Yanzhou.

– Facility 1: AUD1,400 million – the purpose of the facility is to fund working capital and capital expenditure. The facility can be drawn in both AUD and USD. During the year USD299.5 million was drawn down. In total USD499.5 million (AUD683.7 million) was drawn down as at 31 December 2015 (31 December 2014: USD200.0 million (AUD243.8 million)).

– Facility 2: USD807 million – the purpose of the facility is to fund the coupon payable on subordinated capital notes. During the year USD73.2 million was drawn down. In total USD73.2 million (AUD100.2 million) was drawn down as at 31 December 2015 (31 December 2014: USD nil (AUD nil)).

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

In August 2012, the Company successfully arranged a long-term loan facility from Yancoal International Resources Development Co., Ltd, a wholly-owned subsidiary of the Company's majority shareholder, Yanzhou Coal Mining Company Limited. The facility was for USD550.0 million and was provided on an unsecured basis with no covenants. The purpose of the facility was to fund the acquisition of Gloucester Coal Limited. In December 2014 USD434.0 million was repaid, leaving an outstanding balance of USD116.0 million which remains outstanding as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

D3 DERIVATIVES

Accounting Policies

The Group is party to derivative financial instruments (including forward foreign exchange contracts and foreign exchange collar option contracts) in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates in accordance with the Group's financial risk management policies (refer to Note D6). Foreign currency speculation is specifically excluded.

Derivatives are initially recognised at fair value and subsequently remeasured to their fair value at the end of each reporting period. Any gains or losses arising from changes in the fair value of derivatives, except those that qualify as effective hedges, are immediately recognised in profit or loss.

For the accounting policy relating to derivatives used in cash flow hedges refer to D6.

	31 December 2015 $M	31 December 2014 $M
Current assets		
Forward foreign exchange contracts receivable (i)	**–**	0.1
Total current derivative financial instrument assets	**–**	0.1
Current liabilities		
Forward foreign exchange contracts payable (i)	**(1.0)**	(0.4)
Collar option contracts (ii)	**–**	(15.6)
Total current derivative financial instrument liabilities	**(1.0)**	(16.0)
Net current derivative financial instruments	**(1.0)**	(15.9)

(i) As at 31 December 2015, the outstanding sell USD contracts are hedging highly probable forecast sales of coal, whereas the outstanding buy AUD and USD contracts relate to the settlement of CNY term deposits. The contracts are timed to settle when the RMB term deposits mature. There were also outstanding buy EUR contracts which relate to settlement of EUR purchases.

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

During the year ended 31 December 2015, a loss of $22.3 million (2014: loss of $26.7 million) was recycled from other comprehensive income to profit or loss in respect of collar options.

D4 CONTRIBUTED EQUITY

Accounting Policies

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Costs directly attributable to the issue of new shares, options or other equity instrument are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(a) Contributed equity

	31 December 2015 Number	31 December 2014 Number	31 December 2015 $M	31 December 2014 $M
(i) Share capital				
Ordinary shares (note (c))				
Issued and fully paid up	**994,216,659**	994,216,659	**656.8**	656.8
(ii) Other equity securities				
Subordinated capital notes (note (d))	**18,005,102**	18,005,102	**2,183.3**	2,185.9
Contingent value right shares			**262.9**	262.9
			2,446.2	2,448.8
Total contributed equity			**3,103.0**	3,105.6

(b) Other equity securities

	31 December 2015 $M	31 December 2014 $M
Contingent value right shares	**262.9**	262.9
Subordinated capital	**2,195.2**	2,195.2
Transaction costs	**(15.6)**	(13.3)
Deferred tax	**3.7**	4.0
	2,446.2	2,448.8

(c) Ordinary shares

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

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

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. There have been no movements in the number of ordinary shares since June 2012.

(d) Subordinated capital notes

On 31 December 2014, Yancoal SCN Limited, a wholly owned subsidiary of Yancoal Australia Ltd issued 18,005,102 Subordinated Capital Notes (SCN Notes) at USD100 each. Each SCN Note is convertible into 1,000 Yancoal Australia Limited ordinary shares.

The subordinated capital notes are perpetual, subordinated, convertible, unsecured capital notes of face value USD100 per note. The subordinated capital notes entitle holders to receive fixed rate distribution payments, payable semi-annually in arrears unless deferred. The distribution rate is set at 7% per annum, the rate is resettable to the 5 year USD mid-swap plus the initial margin per annum every 5 years. The SCN Notes are convertible at the option of the holders to Yancoal Australia Ltd ordinary shares within 30 years.

(e) Contingent value right shares

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

(f) Capital risk management

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

The gearing ratios at 31 December 2015 and 31 December 2014 were as follows:

	Notes	31 December 2015 $M	31 December 2014 $M
Total interest-bearing liabilities	D2	**4,731.5**	3,780.0
Less: cash and cash equivalents	C6	**(154.4)**	(203.6)
Net debt		**4,577.1**	3,576.4
Total equity		**1,688.3**	2,487.2
Total capital		**6,265.4**	6,063.6
Gearing ratio		**73.1%**	59.0%

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

D5 DISTRIBUTIONS
(a) SCN distributions

	% per SCN	USD $M	AUD $M
Distribution Paid			
Interim distribution in respect of year ended 31 December 2015 paid on 31 July 2015 on SCNs	7%	73.2	100.4
Distribution Payable			
Final distribution in respect of year ended 31 December 2015 payable on 31 January 2016 on SCNs	7%	62.9	86.0
Total paid and payable		136.1	186.4

(b) Franked dividends

	31 December 2015 $M	31 December 2014 $M
Franking credits available for subsequent reporting periods based on an income tax rate of 30% (2014 – 30%)	–	5.4

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax and franking debits that will arise as a result of refunds of tax that are reflected in the current tax receivable balance at the reporting date;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

D6 HEDGE RESERVE
Accounting Policies
When a financial instrument is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the hedging reserve until the anticipated underlying transaction occurs. Any ineffective portion of changes in the fair value of the hedging instrument is recognised immediately in profit or loss.

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

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

(a) Reserves

	31 December 2015 $M	31 December 2014 $M
Hedging reserve	**(879.9)**	(561.2)
	(879.9)	(561.2)
Movements:		
Hedging reserve – cash flow hedges		
Opening balance	**(561.2)**	(235.3)
Loss recognised on USD interest bearing liabilities	**(474.9)**	(497.2)
Transferred to profit or loss	**22.3**	28.9
Deferred income tax expense	**133.9**	142.4
Closing balance	**(879.9)**	(561.2)

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

The closing balance includes $879.9 million (after tax) (2014: $553.9 million) relating to the effective portion of the cumulative net change in the fair value of the natural cash flow hedge using the US dollar denominated interest-bearing liabilities to hedge against future coal sales.

During the year ended 31 December 2015, a total gain of $2.1 million (2014: loss of $2.2 million) was transferred from other comprehensive income to profit or loss in respect of the cash flow hedge.

D7 CONTINGENCIES

Contingent liabilities

The Group had contingent liabilities at 31 December 2015 in respect of:

(i) Bank guarantees

	31 December 2015 $M	31 December 2014 $M
Parent entity and consolidated entity		
Guarantees secured over deposits	**23.8**	27.1
Performance guarantees provided to external parties	**161.8**	195.1
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	**100.9**	34.3
Guarantees provided in respect of land acquisition	**50.0**	36.3
	336.5	292.8
Joint ventures (equity share)		
Guarantees secured over deposits	**0.3**	0.4
	0.3	0.4
Guarantees held on behalf of related parties (refer to Note E3(d) for details of beneficiaries)		
Guarantees secured over deposits	**1.1**	1.1
Performance guarantees provided to external parties	**101.8**	105.3
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	**18.4**	9.3
	121.3	115.7
	458.1	408.9

(ii) Tax audit

The Australian Taxation Office ("ATO") commenced an audit of the Group during the 2013 financial year. During the current year, final settlement was reached with the ATO which resulted in an increase to tax losses of $176.8 million, an increase to tax expense of $13.6 million, a cash payment of $16.9 million (inclusive of interest charges), and a consequential amendment to the tax return for the tax years concerned. The Group is currently in discussion with the ATO in relation to a subsequent tax year which may lead to further audit activity in the future.

(iii) Letter of Support provided to Middlemount Coal Pty Ltd

The Company has issued a letter of support dated 27 February 2015 to Middlemount Coal Pty Ltd ("Middlemount"), a joint venture of the Group confirming:

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

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

(iv) Other contingencies

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

D8 FINANCIAL RISK MANAGEMENT

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

The Group holds the following financial instruments:

(i) Cash and cash equivalents;

(ii) Trade and other receivables;

(iii) Trade and other payables;

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

(v) Available-for-sale investments;

(vi) Royalty receivable; and

(vii) Derivative financial instruments.

The Board of Directors has overall responsibility for determining risk management objectives and policies and risk management is carried out by the Group Audit and Risk Management department along with the Group Treasury department. The Board provides written principles for overall risk management, as well as policies covering specific areas such as the use of derivative financial instruments to mitigate foreign exchange risk. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation.

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

(a) Market risk

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

(i) Foreign exchange risk

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

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

Hedging through bank issued instruments

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income in the hedging reserve until the anticipated underlying transaction occurs. Once the anticipated underlying transaction occurs, amounts accumulated in equity are recycled through the profit or loss or recognised as part of the cost of the asset to which it relates. The ineffective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised immediately in the profit or loss. In the current period, the loss relating to the ineffective portion was $nil (2014: gain of $2.4 million).

Natural cash flow hedge

The Group currently does not use bank issued instruments to hedge foreign exchange risks in respect of US dollar denominated loans, however, the scheduled repayment of the principal on US dollar loans is designated to hedge the cash flow risks on the portion of forecast US dollar sales that are not hedged through bank issued instruments ("Natural cash flow hedge"). US dollar loan repayments up to a six-month period are designated to hedge the forecast US dollar sales during the same period after the designation of the hedge relationship based on a dollar for dollar basis until the hedge ratio reaches 1.

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

Royalty receivable

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

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

	31 December 2015			31 December 2014		
	USD $M	EUR $M	RMB* $M	USD $M	EUR $M	RMB $M
Cash and cash equivalents	**29.9**	**–**	**95.7**	53.2	–	106.3
Trade receivables	**87.0**	**–**	**–**	117.5	–	–
Royalty receivable	**204.9**	**–**	**–**	199.2	–	–
Trade and other payables	**(77.9)**	**–**	**–**	(42.8)	(0.5)	–
Interest bearing liabilities	**(4,700.7)**	**–**	**–**	(3,738.7)	–	–
Derivative financial instruments	**–**	**–**	**(1.0)**	(16.0)	–	–
Net Exposure	**(4,456.8)**	**–**	**94.7**	(3,427.6)	(0.5)	106.3

* The cash and cash equivalents balance in RMB was $0.5 million on 14 January 2016. No foreign exchange risk for sensitivity analysis has been performed due to the immaterial position subsequent to year end.

Sensitivity

The following table summarises the sensitivity of the Group's financial assets and liabilities to a reasonable possible change in the US dollar exchange rate. The Group's exposure to other foreign exchange movements is not material. The Group has used the observed range of actual historical rates for the preceding five year period, with a heavier weighting placed on recently observed market data, in determining reasonably possible exchange movements to be used for the current year's sensitivity analysis. Past movements are not necessarily indicative of future movements. A 10% depreciation/appreciation of the Australian dollar against the US dollar would have (decreased)/increased equity and profit or loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	10% depreciation of AUD/USD		10% appreciation of AUD/USD	
	Profit after income tax $M	Equity $M	Profit after income tax $M	Equity $M
2015				
Cash and cash equivalents	**2.3**	**–**	**(1.9)**	**–**
Trade and other receivables	**6.8**	**–**	**(5.5)**	**–**
Royalty receivable	**15.9**	**–**	**(13.0)**	**–**
Total increase/(decrease) in financial assets	**25.0**	**–**	**(20.4)**	**–**
Trade and other payables	**(6.1)**	**–**	**5.0**	**–**
Interest-bearing liabilities	**(0.6)**	**(365.0)**	**0.5**	**298.6**
Derivative financial instruments	**(4.5)**	**–**	**3.7**	**–**
Total (increase)/decrease in financial liabilities	**(11.2)**	**(365.0)**	**9.2**	**298.6**
Total increase/(decrease) in profit after tax and equity	**13.8**	**(365.0)**	**(11.2)**	**298.6**
2014				
Cash and cash equivalents	4.1	–	(3.4)	–
Trade and other receivables	9.1	–	(7.5)	–
Royalty receivable	15.5	–	(12.7)	–
Total increase/(decrease) in financial assets	28.7	–	(23.6)	–
Trade and other payables	(3.3)	–	2.7	–
Interest-bearing liabilities	(1.0)	(289.8)	0.8	237.1
Derivative financial instruments	(5.7)	(8.1)	4.9	21.3
Total (increase)/decrease in financial liabilities	(10.0)	(297.9)	8.4	258.4
Total increase/(decrease) in profit after tax and equity	18.7	(297.9)	(15.2)	258.4

Equity movements above reflect movements in the hedge reserve due to foreign exchange movements on USD interest bearing loans.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

D8 FINANCIAL RISK MANAGEMENT continued

(a) Market risk continued

(ii) Price risk

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

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

Sensitivity

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

	-10%		+10%	
	Profit after income tax $M	Equity $M	Profit after income tax $M	Equity $M
2015				
Royalty receivable	**(14.3)**	**–**	**14.3**	**–**
Total (decrease)/increase in profit after tax and equity	**(14.3)**	**–**	**14.3**	**–**
2014				
Royalty receivable	(13.9)	–	13.9	–
Total (decrease)/increase in profit after tax and equity	(13.9)	–	13.9	–

(iii) Interest rate risk

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

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

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

	31 December 2015		31 December 2014	
	Weighted average interest rate %	Balance $M	Weighted average interest rate %	Balance $M
Cash and cash equivalents	**0.9**	**154.4**	1.1	203.6
Restricted cash	**0.9**	**3.5**	1.5	0.1
Bank loans and other borrowings	**3.6**	**3,750.3**	2.1	3,340.6
Net exposure to cash flow interest rate risk		**3,908.2**		3,544.3

Sensitivity

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

	-25 bps		+25 bps	
	Profit after income tax $M	Equity $M	Profit after income tax $M	Equity $M
2015				
Cash and cash equivalents	**(0.1)**	**–**	**0.1**	**–**
Trade and other receivables	**(0.1)**	**–**	**0.1**	**–**
Interest bearing liabilities	**6.6**	**–**	**(6.6)**	**–**
	6.4	**–**	**(6.4)**	**–**
2014				
Cash and cash equivalents	(0.2)	–	0.2	–
Trade and other receivables	(0.1)	–	0.1	–
Interest bearing liabilities	5.8	–	(5.8)	–
	5.5	–	(5.5)	–

(b) Credit risk

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

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

(i) payment terms and credit limits are set for individual customers;

(ii) a risk assessment process is used for all customers; and

(iii) letters of credit are required for those customers assessed as posing a higher risk.

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

	31 December 2015 $M	31 December 2014 $M
Cash and cash equivalents	**159.0**	203.6
Trade and other receivables	**635.3**	697.5
	794.3	901.1

Amounts above includes cash and cash equivalents and trade and other receivables associated with assets classified as held for sale.

Included in trade and other receivables are significant customers located in Australia, Singapore, South Korea and China that account for 46%, 22%, 7% and 4% of trade receivables respectively (2014: 51%, 23%, 9% and 8%).

At 31 December 2015, derivative financial instruments were in a net liability position (2014: net liability position). As a result no credit risk has been disclosed above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

D8 FINANCIAL RISK MANAGEMENT continued

(c) Liquidity risk

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

(i) will not have sufficient funds to settle transactions on the due date;

(ii) will be forced to sell financial assets at a value which is less than what they are worth; or

(iii) may be unable to settle or recover a financial asset at all.

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and having readily accessible standby facilities in place in accordance with the Board's risk management policy. Details regarding finance facilities are set out in Note D2.

Maturities of financial liabilities

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

(a) all non-derivative financial liabilities; and

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

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

Contractual maturities of financial liabilities	Less than 1 year $M	Between 1 and 2 years $M	Between 2 and 5 years $M	Greater than 5 years $M	Total contractual cash flows $M	Carrying amount $M
At 31 December 2015						
Non-derivatives						
Trade payables	**292.3**	**–**	**–**	**–**	**292.3**	**292.3**
Interest-bearing liabilities	**299.0**	**357.6**	**2,143.7**	**3,704.7**	**6,505.0**	**4,731.5**
Total non-derivatives	**591.3**	**357.6**	**2,143.7**	**3,704.7**	**6,797.3**	**5,023.8**
Derivatives						
Gross settled (Derivative financial instruments)						
– (inflow)	**(140.7)**	**–**	**–**	**–**	**(140.7)**	**–**
– outflow	**142.6**	**–**	**–**	**–**	**142.6**	**1.0**
Total derivatives	**1.9**	**–**	**–**	**–**	**1.9**	**1.0**
At 31 December 2014						
Non-derivatives						
Trade payables	280.1	0.5	–	–	280.6	280.6
Interest-bearing liabilities	228.1	229.1	846.3	3,979.0	5,282.5	3,779.9
Total non-derivatives	508.2	229.6	846.3	3,979.0	5,563.1	4,060.5
Derivatives						
Gross settled (Derivative financial instruments)						
– (inflow)	(290.9)	–	–	–	(290.9)	(0.1)
– outflow	268.5	–	–	–	268.5	16.0
Total derivatives	(22.4)	–	–	–	(22.4)	15.9

(d) Fair value measurements

(i) Fair value hierarchy

The Group uses various methods in estimating the fair value of financial instruments. AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in accordance with the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2015 and 31 December 2014:

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
31 December 2015				
Assets				
Royalty receivable	**–**	**–**	**204.9**	**204.9**
Total assets	**–**	**–**	**204.9**	**204.9**
Liabilities				
Derivatives used for hedging				
Forward foreign exchange contracts	**–**	**1.0**	**–**	**1.0**
Total liabilities	**–**	**1.0**	**–**	**1.0**
31 December 2014				
Assets				
Derivatives used for hedging				
Forward foreign exchange contracts	–	0.1	–	0.1
Royalty receivable	–	–	199.2	199.2
Total assets	–	0.1	199.2	199.3
Liabilities				
Derivatives used for hedging				
Forward foreign exchange contracts	–	0.4	–	0.4
Foreign exchange option contracts	–	15.6	–	15.6
Other derivatives	–	–	–	–
Total liabilities	–	16.0	–	16.0

(ii) Valuation techniques

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for the royalty receivable.

The valuation techniques used for level 2 financial instruments are:

Description	Valuation Technique(s)	Inputs used
Forward Foreign Exchange Contracts	Income approach using discount cash flow methodology	Current forward exchange rates applicable to remaining life of contract
Foreign Exchange Option Contracts	Income approach using Black-Scholes option pricing model	Volatility surface applicable to remaining life of contract

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

D – CAPITAL STRUCTURE AND FINANCING

D8 FINANCIAL RISK MANAGEMENT continued

(d) Fair value measurements continued

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 31 December 2015:

	31 December 2015 Royalty Receivable $M	31 December 2014 Royalty Receivable $M
Opening balance	**199.2**	208.9
Cash received/receivable	**(18.0)**	(15.2)
Unwinding of the discount	**21.2**	22.3
Remeasurement of the royalty receivable recognised in profit and loss	**2.4**	(16.8)
Closing balance	**204.8**	199.2

Royalty receivable

The fair value of the royalty receivable is the fair value of the right to receive a royalty of 4% of Free on Board Trimmed Sales from the Middlemount Mine. The financial asset has a finite life being the life of the Middlemount Mine and will be measured on a fair value basis.

The fair value is determined using the discounted future cash flows that are dependent on the following unobservable inputs: forecast sales volumes, coal prices and fluctuations in foreign exchange rates. The forecast sales volumes are based on the internally maintained budgets, five year business plan and life of mine models. The forecast coal prices and long-term exchange rates are based on external data consistent with the data used for impairment assessments (refer to Note C3). The risk-adjusted post-tax discount rate used to determine the future cash flows is 10.5%.

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

(iv) Fair values of other financial instruments

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

(i) Trade and other receivables;

(ii) Other financial assets;

(iii) Trade and other payables; and

(iv) Interest-bearing liabilities.

E – GROUP STRUCTURE

This section explains significant aspects of the Groups structure including business combinations, interests in other entities, related party transactions, parent entity information, controlled entities and the deed of cross guarantee.

E1 BUSINESS COMBINATIONS

Accounting Policies

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

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a gain on acquisition of subsidiaries.

(a) Moolarben Coal Joint Venture 1% acquisition

(i) Summary of acquisition

On 30 March 2015, Moolarben Coal Mine Pty Ltd, a 100% owned subsidiary of Yancoal Australia Ltd (the Group) acquired an additional 1% interest in the Moolarben Coal Joint Venture ("Moolarben JV") owned by Hanwha Resources (Australia) Pty Ltd ("Hanwha"). The Moolarben JV is accounted for as a joint operation. With the 1% acquisition the Group now holds an 81% interest in the Moolarben JV. The cash consideration paid was $19.9 million.

The accounting for the acquisition of the additional 1% interest in Moolarben JV has been determined on a final basis at 31 December 2015.

Details of the purchase consideration, the net assets and liabilities acquired and gain on the additional interest in the Moolarben JV are as follows:

	$M
Total consideration	**19.9**
Gain on acquisition of subsidiaries (Note B3)	**7.3**
Fair value of net identifiable assets acquired	**27.2**

As the fair value of the assets acquired was greater than the consideration a gain of $7.3m was recognised in the profit and loss.

(ii) Assets and liabilities acquired

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

	Fair value $M
Cash	**0.1**
Trade receivables	**0.5**
Inventories	**0.3**
Other current assets	**0.4**
Plant and equipment	**6.1**
Mining tenements	**20.6**
Exploration and evaluation assets	**3.4**
Deferred tax asset	**0.1**
Prepayments (non-current)	**(0.6)**
Trade and other payables	**(0.2)**
Deferred tax liabilities	**(3.5)**
Fair value of net identifiable assets acquired	**27.2**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

E – GROUP STRUCTURE

E1 BUSINESS COMBINATIONS continued

(a) Moolarben Coal Joint Venture 1% acquisition continued

(iii) Revenue and profit contribution

The acquired 1% contributed revenue of $3.6 million and a net profit of $0.6 million to the Group for the period from 1 April 2015 to 31 December 2015. If the acquisition had occurred on 1 January 2015, the contributed revenue and net profit for the year ended 31 December 2015 would have been $4.5 million and $0.8 million respectively. These amounts have been calculated using the Group's accounting policies.

(b) Ashton Coal Joint Venture 10% acquisition

(i) Acquisition update

On 30 September 2014, White Mining (NSW) Pty Ltd a 100% owned subsidiary of the Group acquired the remaining 10% interest in Ashton Coal Joint Venture ("Ashton") owned by ICRA Ashton Pty Ltd ("ICRAA"). With the 10% acquisition the Group holds a 100% interest in Ashton and a 100% shareholding in Ashton Coal Mines. The total consideration paid was $21.0 million. The accounting for the Ashton acquisition was determined on a provisional basis at 31 December 2014.

During the current year, adjustments have been made to the provisional acquisition accounting of Ashton, resulting in the fair value of identifiable assets recognised on acquisition decreasing by $0.2 million. This is due to an increase in take or pay provision of $4.8 million partially offset by increases in mining tenements of $4.5 million together with the resulting deferred tax impacts. Deferred tax assets increased by $1.5 million and deferred tax liabilities increased by $1.3 million. The changes have resulted from further analysis of agreements and the nature and status of assets that existed as at the acquisition date that, if known, would have affected the measurement of the amounts recognised as at the date of acquisition.

Total purchase consideration decreased by $0.7 million compared to the financial statements at 31 December 2014 due to the finalisation of stamp duty costs on the acquisition. As at 31 December 2015 the gain on acquisition has decreased by $0.9 million as a result of the adjustments noted above.

E2 INTERESTS IN OTHER ENTITIES

Accounting Policies

(i) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investments in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

(ii) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake economic activities under joint control. Joint control exists only when the strategic, financial and operational policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture. The structure of each joint arrangement is analysed to determine whether the joint arrangement is a joint operation or a joint venture. The classification of a joint arrangement is dependent on the rights and obligations of the parties to the arrangement.

Joint operation

The Group recognises its proportional right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Joint venture

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

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

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

(a) Joint operations

A controlled entity, Moolarben Coal Mines Pty Limited, has an 81% interest in the Moolarben Joint Venture whose principal activity is the development and operation of open-cut and underground coal mines.

A controlled entity, Yarrabee Coal Company Pty. Ltd., has a 50% interest in the Boonal Joint Venture, whose principal activity is the provision of a coal haul road and train load out facility.

The principal place of business for the above joint operations is in Australia.

(b) Interests in associates and joint ventures

Set out below are the associates and joint ventures of the Group as at 31 December 2015. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	% of ownership interest 2015 %	% of ownership interest 2014 %	Nature of relationship	Measurement method	Carrying amount of investment 2015 $M	Carrying amount of investment 2014 $M
Newcastle Coal Infrastructure Group Pty Ltd	Australia	27	27	Associate	Equity method	–	–
Middlemount Coal Pty Ltd	Australia	49.9997	49.9997	Joint Venture	Equity method	7.7	25.4

(i) Investment in associates

Newcastle Coal Infrastructure Group Pty Ltd

The Group holds 27% (2014: 27%) of the ordinary shares of Newcastle Coal Infrastructure Group Pty Ltd ("NCIG"). Under the shareholder agreement between the Group and other shareholders, the Group has 27% of the voting power of NCIG. The Group has the right to appoint a director and is currently represented on the Board to partake in policy-making processes.

Summarised financial information of associates

The following table provides summarised financial information for NCIG. The information disclosed reflects the Group's share of the results of its principal associates and its aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	2015 $M	2014 $M
Current assets	**21.5**	56.6
Non-current assets	**801.5**	785.4
Total assets	**823.0**	842.0
Current liabilities	**12.2**	15.7
Non-current liabilities	**1,112.1**	1,034.3
Total liabilities	**1,124.3**	1,050.0
Revenue	**96.6**	91.9
Loss from continuing operations after tax	**(17.7)**	(84.3)
Other comprehensive (expense)/income	**(75.5)**	21.4
Total comprehensive expense	**(93.2)**	(62.9)

Movements in carrying amounts

The Group's share of NCIG's profit/(loss) after tax has not been recognised for the years ended 31 December 2015 and 31 December 2014 since the Group's share of NCIG's accumulated losses exceeds its interest in NCIG at 31 December 2015 and at 31 December 2014.

(ii) Interest in joint venture

Middlemount Coal Pty Ltd

A controlled entity, Gloucester (SPV) Pty Ltd, has a 49.9997% interest in the net assets of Middlemount Coal Pty Ltd ("Middlemount"), an incorporated joint venture, whose principal activity is the development and operation of open-cut coal mines in the Bowen Basin.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

E – GROUP STRUCTURE

E2 INTERESTS IN OTHER ENTITIES continued

(b) Interests in associates and joint ventures continued

(ii) Interest in joint venture continued

Summarised financial information of joint venture

The following table provides summarised financial information for Middlemount. The information disclosed reflects the Group's share of the results of Middlemount and its aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	31 December 2015 $M	31 December 2014 $M
Cash and cash equivalents	**9.8**	1.7
Other current assets	**33.6**	32.1
Total current assets	**43.4**	33.8
Total non-current assets	**668.6**	660.8
Current financial liabilities	**–**	–
Other current liabilities	**121.9**	85.4
Total current liabilities	**121.9**	85.4
Non-current financial liabilities	**373.7**	381.3
Other non-current liabilities	**208.7**	202.4
Total non-current liabilities	**582.4**	583.7
Net assets	**7.7**	25.5
Revenue	**213.1**	183.7
Depreciation and amortisation	**(41.0)**	(31.7)
Interest expense	**(25.0)**	(22.7)
Income tax benefit	**3.7**	19.3
Loss from continuing operations after tax	**(37.2)**	(61.5)
Movements in reserves, net of tax	**19.5**	–
Total comprehensive expense	**(17.7)**	(61.5)

The liabilities of Middlemount include an interest bearing liability of $331.1 million (face value of $349.9 million) due to the Group at 31 December 2015 (31 December 2014: $340.0 million). The repayment of the loan due to the Group can only be made by Middlemount after the full settlement of all external borrowings (bank loans) and the Priority Loans owed to the other shareholder of Middlemount amounting to $130.0 million (31 December 2014: $106.6 million). The liabilities of Middlemount also includes a royalty payable of $51.3 million due to the Group at 31 December 2015 (2014: $32.0 million).

Movements in carrying amounts

	31 December 2015 $M	31 December 2014 $M
Opening net book amount	**25.4**	86.9
Share of loss of equity-accounted investees, net of tax	**(37.2)**	(61.5)
Movements in reserves, net of tax	**19.5**	–
Closing net book amount	**7.7**	25.4

(iii) Commitments and contingent liabilities in respect of associates and joint ventures

There were no commitments and no contingent liabilities in respect of the Group's associates as at 31 December 2015.

There were no commitments in respect of the Group's interest in Middlemount at 31 December 2015.

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

E3 RELATED PARTY TRANSACTIONS

(a) Parent entities

The parent entity within the Group is Yancoal Australia Ltd. The Group's parent entity is Yanzhou Coal Mining Company Limited ("Yanzhou") (incorporated in the People's Republic of China). The ultimate parent entity and ultimate controlling party is Yankuang Group Corporation Limited (incorporated in the People's Republic of China).

(b) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2015 $	31 December 2014 $
Sales of goods and services		
Sales of coal to associated entities – Ashton Coal Mines Limited	**–**	90,855,394
Sales of coal to Noble Group Limited	**247,296,672**	362,664,515
Sales of coal to Yanzhou Coal Mining Company Ltd	**–**	21,876,694
Sales of coal to Yancoal International (Holding) Co., Ltd	**16,304,442**	16,693,514
Provision of marketing and administrative services to associated entities – Ashton Coal Mines Limited	**–**	115,200
Provision of marketing and administrative services to other related parties – Yancoal International Group	**10,636,916**	4,915,684
	274,238,030	497,121,001
Purchases of goods and services		
Purchase of coal from Syntech Resources Pty Ltd	**(6,456,335)**	–
Purchase of coal from Noble Group Limited	**(2,350,352)**	–
	(8,806,687)	–
Advances/loans to and repayment of advances		
Advances to Joint Venture – Middlemount Coal Pty Ltd	**–**	(28,499,016)
Repayment from a related party – Premier Coal Holdings	**2,633,311**	39,723,805
Advances to a related party – Premier Coal Holdings	**(2,635,046)**	(39,723,805)
Repayment from a related party – Yancoal Technology Development Pty Ltd	**16,056,375**	20,050,088
Advances to a related party – Yancoal Technology Development Pty Ltd	**(16,293,189)**	(20,050,088)
Equity subscription, debt repayment and debt provision		
Settlement of Contingent Value Right Shares by Yanzhou Coal Mining Company	**–**	262,935,552
Loans from Yanzhou Coal Mining Company Limited	**351,271,396**	110,000,111
Loan from Yancoal International (Holding) Co., Limited	**140,056,022**	110,095,783
Loan from Yancoal International Trading Co., Ltd HK	**9,986,065**	238,294,718
Repayment of loans from Yancoal International Resources Development Co., Ltd	**–**	(736,409,534)
Repayment of loans from Yanzhou Coal Mining Company Limited	**–**	(482,809,071)
Repayment of loans from Yancoal International (Holding) Co., Ltd	**–**	(975,371,861)
Equity subscription for Subordinated Convertible Notes from Yancoal SCN Ltd	**–**	2,194,590,466
Finance costs		
Interest paid on loans from Yancoal International Resources Development Co., Ltd	**(8,652,753)**	(37,562,283)
Interest accrued on loans from Yancoal International Resources Development Co., Ltd	**(1,221,306)**	(6,399,496)
Interest paid on loans from Yanzhou Coal Mining Company Limited	**(1,945,679)**	(18,120,194)
Interest accrued on loans from Yanzhou Coal Mining Company Limited	**(10,730,812)**	(660,386)
Interest paid on loans from Yancoal International (Holding) Co., Ltd	**–**	(18,819,971)
Interest accrued on loans from Yancoal International (Holding) Co., Ltd	**(1,574,986)**	(1,469,983)
Interest paid on fundings from Premier Coal Holdings to Yancoal Australia Ltd	**–**	(77,868)
Interest paid on fundings from Yancoal Technology Development Pty Ltd to Yancoal Australia Ltd	**–**	(9,068)
Interest paid on loans from Yancoal International Trading Co., Ltd HK	**(11,095,627)**	–
Interest accrued on loans from Yancoal International Trading Co., Ltd HK	**(8,379,376)**	–
	(43,600,539)	(83,119,249)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

E – GROUP STRUCTURE

E3 RELATED PARTY TRANSACTIONS continued

(b) Transactions with other related parties continued

	31 December 2015 $	31 December 2014 $
Other costs		
Bank guarantee fee paid to Yanzhou Coal Mining Company Limited	**–**	(3,167,065)
Corporate guarantee fee paid to Yanzhou Coal Mining Company Limited (extended portion)	**(75,372,213)**	(54,748,594)
Corporate guarantee fee accrued to Yanzhou Coal Mining Company Limited (extended portion)	**(24,379,364)**	(3,015,863)
Arrangement fee paid to Yancoal International Technology Development Co., Ltd	**–**	(8,184,707)
Arrangement fee accrued to Yancoal International Technology Development Co., Ltd	**–**	(1,394,431)
Arrangement fee paid on loan from Yanzhou Coal Mining Company Limited	**–**	(15,337,191)
Arrangement fee accrued on loans from Yanzhou Coal Mining Company Limited	**–**	(524,198)
Arrangement fee paid on loans from Yancoal International (Holding) Co., Ltd	**–**	(15,592,834)
Arrangement fee accrued on loans from Yancoal International (Holding) Co., Ltd	**–**	(1,329,960)
Marketing commission paid to Noble Group Limited	**(237,266)**	(581,483)
Marketing commission accrued to Noble Group Limited	**–**	(614,515)
Port charges paid to NCIG Holdings Pty Limited	**(63,685,004)**	(50,521,627)
Port charges accrued to NCIG Holdings Pty Limited	**(1,084,488)**	(1,582,374)
Port charges paid to Noble Group Limited	**(2,165,779)**	(5,097,223)
Port charges accrued to Noble Group Limited	**(123,704)**	(123,194)
Demurrage paid to Noble Group Limited	**(875,281)**	(970,307)
Demurrage accrued to Noble Group Limited	**(430,343)**	(28,368)
Arrangement fee paid on loans from Yancoal International Resources Development Co., Ltd	**(1,918,638)**	–
Arrangement fee accrued on loans from Yancoal International Resources Development Co., Ltd	**(270,691)**	–
Demurrage paid to NCIG Holdings Pty Limited	**(347,342)**	–
	(170,890,113)	(162,813,934)
Finance income		
Interest income capitalised into loan receivable from Middlemount Coal Pty Ltd	**18,921,014**	19,209,155
Other income		
Royalty income receivable from Middlemount Coal Pty Ltd	**17,765,029**	15,299,388
Despatch received from Noble Group Limited	**–**	139,774
Despatch receivable from Noble Group Limited	**–**	5,273
Bank guarantee fee charged to Syntech Resources Pty Ltd	**1,506,328**	1,219,208
Bank guarantee fee charged to Premier Coal Holdings Pty Ltd	**310,000**	99,408
	19,581,357	16,763,051

(c) Outstanding balances arising from transactions with related parties

Balances outstanding at the reporting date to/from related parties are unsecured, non-interest bearing (except for loans receivable and loans payable) and are repayable on demand.

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	31 December 2015 $	31 December 2014 $
Current assets		
Trade and other receivables		
Receivable from Yancoal International Group entities in relation to cost reimbursement	**20,890,454**	12,259,546
Trade receivable from Noble Group Limited in relation to sales of coal	**14,136,826**	47,744,193
Promissory Notes receivable from Yancoal International (Holding) Co., Ltd	**21,174,124**	21,174,124
Despatch receivable from Noble Group Limited	**–**	5,273
Royalty receivable from Middlemount Coal Pty Ltd	**51,270,354**	32,020,620
Bank guarantee reimbursement receivable from Syntech Resources	**462,769**	318,569
Bank guarantee reimbursement receivable from Premier Coal	**103,316**	57,523
Receivable from Yancoal International Group entities	**2,709,054**	–
	110,746,897	113,579,848
Non-current assets		
Advances to joint venture		
Receivable from Middlemount Coal Pty Ltd being an unsecured, interest-bearing advance	**331,075,808**	339,968,229
	331,075,808	339,968,229
Current liabilities		
Other payables		
Payables to Yanzhou Coal Mining Company Limited	**35,110,176**	4,200,447
Payables to Yancoal International Resources Development Co., Ltd	**1,491,997**	6,399,496
Payables to Yancoal International Technology Development Co., Ltd	**–**	1,394,431
Payables to Yancoal International (Holding) Co., Ltd	**1,574,986**	2,799,943
Payables to Yancoal International Group entities	**2,803,657**	1,868
Payables to Noble Group Limited	**554,047**	766,077
Payable to NCIG Holdings Pty Limited	**1,084,488**	1,582,374
Payables to Yancoal International Trading Co., Ltd HK	**8,379,376**	–
	50,998,727	17,144,636
Non-current liabilities		
Other payables		
Payable to Yancoal International Resources Development Co., Ltd being an unsecured, interest-bearing loan	**158,769,368**	141,425,140
Payable to Yancoal International (Holding) Co., Ltd being an unsecured, interest-bearing loan	**136,873,802**	–
Payable to Yancoal International Trading Co., Ltd HK being an unsecured, interest-bearing loan	**283,717,268**	243,842,965
Payable to Yanzhou Coal Mining Company Limited being an unsecured, interest-bearing loan	**363,334,548**	–
	942,694,986	385,268,105

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

E – GROUP STRUCTURE

E3 RELATED PARTY TRANSACTIONS continued

(d) Guarantees

The bankers of the Group have issued undertakings and guarantees to government departments, and various external parties on behalf of the following related entities:

	31 December 2015 $	31 December 2014 $
Syntech Resources Pty Ltd	**59,365,000**	72,024,771
Syntech Holdings Pty Ltd	**32,907,000**	14,550,000
AMH (Chinchilla Coal) Pty Ltd	**29,000**	29,000
Premier Coal Limited	**29,000,000**	29,000,000
Tonford Holdings Pty Ltd	**–**	12,500
Athena Joint Venture	**–**	2,500
Wilpeena Holdings Pty Ltd	**–**	7,500
	121,301,000	115,626,271

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

(e) Terms and conditions

Transactions between related parties are usually on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The USD116.0 million loan obtained in 2013 from Yancoal International Resources Development Co., Ltd was charged at a fixed interest rate of 7.00% p.a (inclusive of arrangement fees).

The USD150.0 million and USD50.0 million loans obtained in 2014 from Yancoal International Trading Company Limited (Hong Kong) were drawn under a USD300.0 million facility provided by Yanzhou. These loans were transferred to the AUD1,400.0 million loan facility provided by Yanzhou on 31st December 2014. A fixed interest rate of 7% is charged on these loans.

A total of USD299.5 million was drawn from the AUD1,400.0 million loan facility provided by Yanzhou during 2015. A fixed interest rate of 7% is charged on the drawdown.

A total of USD73.2 million was drawn from the USD807.0 million loan facility provided by Yanzhou during 2015. A fixed interest rate of 7% is charged on the drawdown.

Yanzhou provided corporate guarantees as security for the following facilities:

- Syndicated facility and bi-lateral facility – a fixed rate of 2.5% is charged on the outstanding loan principal of USD2,740.0 million.
- Working capital facility – a fixed rate of 2.5% is charged on the facility limit of AUD50.0 million.
- ICBC bank guarantee facility – a fixed rate of 2.0% is charged on the facility limit of AUD100.0 million.

E4 PARENT ENTITY FINANCIAL INFORMATION

Accounting Policies

(a) Investments in subsidiaries, associates and joint arrangements

Investments in subsidiaries, associates and joint arrangements are accounted for at cost less any impairment in the financial statements of Yancoal Australia Ltd. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(b) Tax consolidation legislation

Yancoal Australia Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Yancoal Australia Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Yancoal Australia Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Yancoal Australia Ltd for any current tax payable assumed and are compensated by Yancoal Australia Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Yancoal Australia Ltd under the tax consolidation legislation as loans between entities. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

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

(a) Summary financial information

The individual financial statements for the parent entity, Yancoal Australia Ltd show the following aggregate amounts:

	31 December 2015 $M	31 December 2014 $M
Current assets	**1,145.0**	2,746.7
Non-current assets	**6,700.2**	4,349.3
Total assets	**7,845.2**	7,096.0
Current liabilities	**157.4**	39.8
Non-current liabilities	**4,961.7**	4,004.5
Total liabilities	**5,119.1**	4,044.3
Net assets	**2,726.1**	3,051.7
Shareholders' equity		
Contributed equity	**3,114.8**	3,114.8
Reserves		
Cash flow hedges	**(879.9)**	(553.9)
Retained earnings	**491.1**	490.8
Capital and reserves attributable to the owners of Yancoal Australia Ltd	**2,726.0**	3,051.7
Profit for the year	**186.7**	45.0
Other comprehensive income	**(326.0)**	(347.7)
Total comprehensive income	**(139.3)**	(302.7)

(b) Guarantees entered into by the parent entity

As at 31 December 2015, the parent entity had contingent liabilities in the form of a bank guarantee amounting to $121.3 million (2014: $115.6 million) in support of the operation of the entity, its subsidiaries and related parties (refer to Note E3).

(c) Contingent liabilities of the parent entity

There are cross guarantees given by Yancoal Australia Ltd and certain subsidiaries as described in Note E6.

The parent entity did not have any contingent liabilities as at 31 December 2015, except for those described in Note D7.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

E – GROUP STRUCTURE

E5 CONTROLLING INTERESTS

(a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries:

		Equity holding	
Name of entity	Country of incorporation	2015 %	2014 %
The Company			
Yancoal Australia Ltd (i)	Australia	**–**	–
Controlled entities – at cost			
Yancoal SCN Limited (iv)	Australia	**100.0**	100.0
Yancoal Australia Sales Pty Ltd (i) (iii)	Australia	**100.0**	100.0
Austar Coal Mine Pty Limited (i) (iii)	Australia	**100.0**	100.0
Yancoal Resources Limited (iii)	Australia	**100.0**	100.0
Moolarben Coal Mines Pty Ltd (iii)	Australia	**100.0**	100.0
Moolarben Coal Operations Pty Ltd	Australia	**100.0**	100.0
Moolarben Coal Sales Pty Ltd	Australia	**100.0**	100.0
Felix NSW Pty Ltd	Australia	**100.0**	100.0
SASE Pty Ltd	Australia	**90.0**	90.0
Yarrabee Coal Company Pty. Ltd. (iii)	Australia	**100.0**	100.0
Proserpina Coal Pty Ltd	Australia	**100.0**	100.0
Athena Coal Operations Pty Ltd	Australia	**100.0**	100.0
Athena Coal Sales Pty Ltd	Australia	**100.0**	100.0
White Mining Limited	Australia	**100.0**	100.0
White Mining Services Pty Limited	Australia	**100.0**	100.0
White Mining (NSW) Pty Limited (iii)	Australia	**100.0**	100.0
Ashton Coal Operations Pty Limited	Australia	**100.0**	100.0
Ashton Coal Mines Limited (iii)	Australia	**100.0**	100.0
Gloucester Coal Ltd (i) (iii)	Australia	**100.0**	100.0
Westralian Prospectors NL (i)	Australia	**100.0**	100.0
Eucla Mining NL (i)	Australia	**100.0**	100.0
CIM Duralie Pty Ltd (ii)	Australia	**100.0**	100.0
Duralie Coal Marketing Pty Ltd (ii)	Australia	**100.0**	100.0
Duralie Coal Pty Ltd (i) (iii)	Australia	**100.0**	100.0
Gloucester (SPV) Pty Ltd (iii)	Australia	**100.0**	100.0
Gloucester (Sub Holdings 1) Pty Limited (i)	Australia	**100.0**	100.0
Gloucester (Sub Holdings 2) Pty Limited (ii)	Australia	**100.0**	100.0
CIM Mining Pty Ltd (i)	Australia	**100.0**	100.0
Donaldson Coal Holdings Limited (i)	Australia	**100.0**	100.0
Monash Coal Holdings Pty Limited (ii)	Australia	**100.0**	100.0
CIM Stratford Pty Ltd (i)	Australia	**100.0**	100.0
CIM Services Pty Ltd (ii)	Australia	**100.0**	100.0
Donaldson Coal Pty Ltd (i) (iii)	Australia	**100.0**	100.0
Donaldson Coal Finance Pty Ltd (ii)	Australia	**100.0**	100.0
Monash Coal Pty Ltd (ii) (iii)	Australia	**100.0**	100.0
Stratford Coal Pty Ltd (ii) (iii)	Australia	**100.0**	100.0
Stratford Coal Marketing Pty Ltd (ii)	Australia	**100.0**	100.0
Abakk Pty Ltd (ii)	Australia	**100.0**	100.0
Newcastle Coal Company Pty Ltd (i) (iii)	Australia	**100.0**	100.0
Primecoal International Pty Ltd (ii)	Australia	**100.0**	100.0
Paway Limited	British Virgin Islands	**100.0**	100.0
Ballymoney Power Limited (v)	Ireland	**–**	100.0
Auriada Limited (v)	Ireland	**–**	100.0
Watagan Mining Company Pty Ltd	Australia	**100.0**	–
Yancoal Mining Services Pty Ltd	Australia	**100.0**	–

(i) These subsidiaries have been granted relief from the requirement to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. These subsidiaries represent the closed group for the purposes of the class order. For further information refer to Note E6.

(ii) These subsidiaries are members of the extended closed group for the purposes of Class Order 98/1418. For further information refer to Note E6.

(iii) These entities are considered to be the material controlled entities of the Group. Their principal activities are the exploration, development, production and marketing of metallurgical and thermal coal.

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

(v) These entities were de-registered on 6 February 2015.

The subsidiaries as listed have share capital consisting solely of ordinary shares and subordinated capital notes, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

E6 DEED OF CROSS GUARANTEE

Yancoal Australia Ltd and certain subsidiaries (refer to Note E5), are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated statement of profit or loss and other comprehensive income

Set out below is a Consolidated statement of profit or loss and other comprehensive income and a summary of movements in consolidated retained earnings for the year ended 31 December 2015 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

	31 December 2015 $M	31 December 2014 $M
Revenue	**487.3**	**490.4**
Other income	**5.8**	0.3
Changes in inventories of finished goods and work in progress	**(1.3)**	(14.1)
Raw materials and consumables used	**(209.8)**	(102.4)
Employee benefits expense	**(116.6)**	(149.6)
Depreciation and amortisation expense	**(73.0)**	(102.8)
Transportation expenses	**(81.2)**	(94.6)
Contractual services and plant hire expenses	**(112.4)**	(179.6)
Government royalties expense	**(21.1)**	(35.9)
Changes in deferred mining costs	**(4.6)**	(16.8)
Other operating expenses	**(76.7)**	(82.2)
Finance costs	**(158.3)**	(161.4)
Loss before income tax	**(361.9)**	(448.7)
Income tax benefit	**73.9**	18.5
Loss for the year	**(288.0)**	(430.2)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Fair value losses taken to equity	**(490.1)**	(528.2)
Fair value losses transferred to profit or loss	**24.5**	31.5
Deferred income tax benefit	**139.7**	149.0
Other comprehensive expense for the period, net of tax	**(325.9)**	(347.7)
Total comprehensive expense for the year	**(613.9)**	(777.9)
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**200.2**	630.4
Opening retained earnings attributable to new members	**19.6**	–
Loss after income tax	**(288.0)**	(430.2)
Distributions to SCN holders	**(186.4)**	–
Retained earnings at the end of the financial year	**(254.6)**	200.2

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

E – GROUP STRUCTURE

E6 DEED OF CROSS GUARANTEE continued

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 31 December 2015 of the entities included in the deed of cross guarantee consisting of Yancoal Australia Ltd and certain subsidiaries. For details regarding the closed group and the extended closed group refer to Note E5.

	31 December 2015 $M	31 December 2014 $M
Current assets		
Cash and cash equivalents	**131.6**	160.0
Trade and other receivables	**853.4**	1,018.2
Inventories	**21.9**	36.6
Other current assets	**4.3**	8.5
Assets classified as held for sale	**827.7**	–
Total current assets	**1,838.9**	1,223.3
Non-current assets		
Trade and other receivables	**49.8**	43.7
Other financial assets	**3,354.2**	3,354.2
Property, plant and equipment	**292.1**	856.3
Mining tenements	**274.0**	326.8
Deferred tax assets	**1,122.6**	951.9
Intangible assets	**2.6**	3.3
Exploration and evaluation assets	**263.7**	417.2
Other non-current assets	**–**	7.9
Total non-current assets	**5,359.0**	5,961.3
Total assets	**7,197.9**	7,184.6
Current liabilities		
Trade and other payables	**110.5**	61.8
Interest-bearing liabilities	**7.5**	12.6
Derivative financial instruments	**1.0**	0.4
Provisions	**8.0**	10.7
Liabilities directly associated with assets classified as held for sale	**148.7**	–
Total current liabilities	**275.7**	85.5
Non-current liabilities		
Interest-bearing liabilities	**4,698.2**	3,734.0
Deferred tax liabilities	**191.4**	529.8
Provisions	**52.2**	74.2
Total non-current liabilities	**4,941.8**	4,338.0
Total liabilities	**5,217.5**	4,423.5
Net assets	**1,980.4**	2,761.1
Equity		
Contributed equity	**2,852.0**	2,852.0
Reserves	**(617.0)**	(291.1)
Accumulated losses)/retained earnings	**(254.6)**	200.2
Total equity	**1,980.4**	2,761.1

F – OTHER INFORMATION

This section provides details on other required disclosures relating to the Group to comply with the accounting standards and other pronouncements. Information is provided on remuneration of auditors, commitments, events occurring after balance date, reconciliation of profit after income tax to net cash inflow, other accounting policies and new and amended accounting policies.

F1 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	31 December 2015 $M	31 December 2014 $M
Property, plant and equipment		
Not later than one year		
Share of joint operations	**5.8**	5.5
Other	**8.9**	4.4
Exploration and evaluation		
Not later than one year		
Share of joint operations	**0.3**	1.4
	15.0	11.3

(b) Lease expenditure commitments

(i) Non-cancellable operating leases

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

	31 December 2015 $M	31 December 2014 $M
Not later than one year	**4.9**	7.6
Later than one year but not later than five years	**0.7**	7.5
	5.6	15.1

The Group leases mining equipment, office space and small items of office equipment under operating leases. The leases typically run for 1 month to 5 years with an option to renew at the expiry of the lease period. None of the leases include contingent rentals.

(ii) Finance leases

Commitments in relation to finance leases are payable as follows:

	31 December 2015 $M	31 December 2014 $M
Not later than one year	**10.9**	10.9
Later than one year but not later than five years	**25.9**	36.8
Later than five years	**–**	–
Minimum lease payments	**36.8**	47.7
Less: future finance charges	**(4.0)**	(6.5)
Less: Transfer to assets classified as held for sale	**(2.0)**	–
Total lease liabilities	**30.8**	41.2
Finance leases are included in the financial statements as:		
Current lease liability (refer to Note D2)	**3.7**	8.1
Non-current lease liability (refer to Note D2)	**27.1**	33.1
	30.8	41.2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

F – OTHER INFORMATION

F2 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	31 December 2015 $M	31 December 2014 $M
(a) ShineWing Australia		
Audit and other assurance services	**0.8**	0.7
Other assurance services	**0.1**	0.6
Total remuneration of ShineWing Australia	**0.9**	1.3

During the year ended 31 December 2015 Ernst & Young provided services relating to the audit and review of Middlemount's financial statements of $35,000 (Yancoal 49.9997% share, 2014: $18,000).

F3 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	31 December 2015 $M	31 December 2014 $M
Loss after income tax	**(291.2)**	(353.5)
Non-cash flows in loss:		
Depreciation and amortisation of non-current assets	**200.4**	231.8
Reversal of impairment/impairment of mining tenements	**–**	(140.0)
Release of the provision for customer contracts	**1.4**	(3.5)
Release of the provision for take or pay contracts	**(14.4)**	(11.8)
Capitalised interest income from joint venture	**(18.9)**	(19.2)
Unwinding of discount on royalty receivable	**(21.2)**	(22.3)
Unwinding of discount on provisions	**5.9**	2.4
Finance lease interest expenses	**2.3**	2.9
Fair value (gain)/loss on financial assets/liabilities	**(2.4)**	20.3
Net loss/(profit) on disposal of property, plant and equipment and available-for-sale financial assets	**2.5**	(0.3)
Gain on business combination	**(6.3)**	(28.3)
Release of research and development provision	**(4.1)**	–
(Loss)/gain on forward foreign exchange contracts	**(2.1)**	2.2
Foreign exchange gains	**(4.7)**	(29.8)
Share of loss of equity-accounted investees, net of tax	**37.2**	61.5
Changes in assets and liabilities:		
(Increase)/decrease/ in deferred tax assets	**(216.7)**	178.2
(Increase)/decrease in inventories	**(10.2)**	25.0
Decrease/(increase) in operating receivables	**79.7**	(47.6)
Increase/(decrease) in operating payables	**12.9**	(22.6)
Decrease/(increase) in prepayments	**7.2**	(5.0)
Decrease in deferred mining assets	**7.3**	7.4
Increase/(decrease) in deferred tax liabilities	**149.9**	(95.6)
Decrease in provisions	**(22.0)**	–
Net cash outflow from operating activities	**(107.5)**	(247.8)

F4 EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

As announced on 17 February 2016, the raising of US$950 million in new debt funding through an issue of nine-year secured debt bonds to a consortium of financiers comprising BOCI Financial Products Limited, Bohai Harvest RST (Shanghai) Equity Investment Fund Management Co. Ltd. and Industrial Bank Co. Ltd.

The bonds will be issued in two tranches of US$760 million (tranche 1) and US$190 million (tranche 2) by a newly established wholly owned subsidiary (Issuer) of Yancoal Australia Ltd. Yancoal's interest in the New South Wales mining assets of Ashton, Austar and Donaldson (Assets) will be transferred to and held by the Issuer.

In accordance with the Terms of Issue of the Subordinated Capital Notes issued by Yancoal SCN Limited in December 2014, the next distribution payment date for the SCNs occurred on 29 January 2016. The distribution was paid at a rate of 7% per annum or US$3.49 per SCN. The total amount distributed was US$62.8 million.

F5 OTHER SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency, except for Yancoal SCN Limited which has the US dollars as its functional currency.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

(ii) Transactions and balances

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

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

F6 NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

Other than AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* (AASB 1 and AASB 11) and AASB 2015-2 *Disclosure Initiative; Amendments to AASB 101* that were early adopted, the Group was not required to change any of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2015.

The new standards that are applicable to for the first time for the year ended 31 December 2015 are:

AASB 2014-1 (Part A) – *Amendments to Australian Accounting Standards – Annual Improvements 2010-2012 and 2011-2013 Cycles*

AASB 2014-1 (Part C) – *Amendments to Australian Accounting Standards – Materiality*

These standards have introduced new disclosures for the Annual Financial Report but did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

F – OTHER INFORMATION

F7 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 9	*Financial Instruments* Amends the requirements for classification and measurement of financial assets. The available-for-sale and held-to-maturity categories of financial assets in AASB 139 have been eliminated. Under AASB 9, there are three categories of financial assets: a) Amortised cost; b) Fair value through profit or loss; and c) Fair value through other comprehensive income. The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9: a) Classification and measurement of financial liabilities; and b) Derecognition requirements for financial assets and liabilities. However, AASB 9 requires that gains or losses on financial liabilities measured at fair value are recognised in profit or loss, except that the effects of changes in the liability's credit risk are recognised in other comprehensive income. Impact: The Group has not yet determined the potential impact of the amendments on the Group's financial report.	1 January 2018
IFRS 16	*Leases* This standard introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new standard include: a) Recognition of a right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure an leases relating to low value assets); b) Deprecation of right-to-use assets in-line with AASB 116 Property, plant and equipment in profit or loss and unwinding of the liability in principal and interest components; c) Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date; d) By applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account all components as a lease; and e) Additional disclosure requirements. Impact: The Group has not yet determined the potential impact of the amendments on the Group's financial report.	1 January 2018
AASB 15	*Revenue from Contracts with Customers* An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under AASB 118 Revenue. Impact: The Group has not yet determined the potential impact of the amendments on the Group's financial report.	1 January 2018

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 2014-4	*Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* Clarifies that use of revenue-based methods for calculating depreciation and amortisation is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of economic benefits embodied in the asset. Impact: The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2016
AASB 2014-9	*Equity Accounting in Separate Financial Statements* Currently, investments in subsidiaries, associates and joint ventures are accounted for in separate financial statements at cost or at fair value under IAS 39/IFRS 9. These amendments provide an additional option to account for these investments using the equity method as described in IAS 28 investments in Associates and Joint Ventures. Impact: The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2016
AASB 2014-10	*Sale or Contribution of Assets between An Investor and its Associate or Joint Venture* Removes the inconsistency between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* in accounting for transactions where a parent loses control over a subsidiary that is not a business under IFRS 3 Business Combinations, by selling part of its interest to an associate or joint venture, or by selling down part of its interest so that the remaining investment becomes an associate or joint venture. Requires that: a) Gain or loss from measuring the retained interest in the former subsidiary at fair value, as well as gains or losses to be reclassified from other comprehensive income to profit or loss, only be recognised to the extent of the unrelated investor's interest in that associate or joint venture, and b) Remaining gains or losses to be eliminated against the investment in associate or joint venture. Impact: The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2016
AASB 2015-1	*Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* Amends a number of pronouncements as a result of the IASB's 2012-2014 annual improvements cycle. Key amendments include: – AASB 5 – Change in methods of disposal; – AASB 7 – Servicing contracts and applicability of the amendments to AASB 7 to condensed interim financial statements; – AASB 119 – Discount rate: regional market issue; and – AASB 134 – Disclosure of information 'elsewhere in the interim financial report'. Impact: The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2016

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

F – OTHER INFORMATION

F7 NEW ACCOUNTING STANDARDS AND INTERPRETATIONS continued

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 2015-3	*Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality* Completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn. Impact: The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2016
AASB 2015-4	*Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent* Amends AASB 128 Investments in Associates and Joint Ventures to align the relief available in AASB 10 Consolidated Financial Statements and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. Amendments are made to AASB 128 to require that the ultimate Australian entity shall apply the equity method in accounting for interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities. Impact: The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2016
AASB 2015-5	*Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception* Amends AASB 10 Consolidated Financial Statements, AASB 12 Disclosures of Interests in Other Entities and AASB 128 Investments in Associates and Joint Ventures, to: – confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of AASB 10 is available to a parent entity that is a subsidiary of an investment entity; – clarify the applicability of AASB 12 to the financial statements of an investment entity; and – introduce relief in AASB 128 to permit a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries. Impact: The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.	1 January 2016

DIRECTORS' DECLARATION

31 DECEMBER 2015

In the Directors' opinion:

(a) the financial statements and notes set out on pages 66 to 128 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note E6 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note E6.

Note a(i) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Baocai Zhang
Director

29 February 2016

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF YANCOAL AUSTRALIA LTD

Report on the Financial Report

We have audited the accompanying financial report of Yancoal Australia Ltd, which comprises the Consolidated Balance Sheet as at 31 December 2015, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, notes comprising a Summary of Significant Accounting Policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year as set out on pages 66 to 129.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note A(i), the directors also state, in accordance with Accounting Standard *AASB 101 Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

ShineWing AUSTRALIA

Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 37 to 50 of the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Yancoal Australia Ltd for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

ShineWing Australia

ShineWing Australia
Chartered Accountants

M J Schofield

M J Schofield
Partner

Sydney, 29 February 2016

SHAREHOLDER INFORMATION

ORDINARY FULLY PAID (TOTAL) AS OF 31 MARCH 2016

Range of Units Snapshot

Range	Total holders	Units	% of Issued Capital
1 - 1,000	994	356,802	0.04
1,001 - 5,000	524	1,303,888	0.13
5,001 - 10,000	115	907,124	0.09
10,001 - 100,000	150	4,691,908	0.47
100,001 - 9,999,999,999	35	986,956,937	99.27
Rounding			**0.00**
Total	**1,818**	**994,216,659**	**100.00**

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum $ 500.00 parcel at $ 0.0760 per unit	6579	1548	1835179

ORDINARY FULLY PAID (TOTAL) AS OF 04 APRIL 2016

Top Holders Snapshot – Ungrouped

Rank	Total Holders	Units	% of Units
1.	YANZHOU COAL MINING COMPANY LIMITED	775,488,994	78.00
2.	OSENDO PTY LIMITED	91,764,626	9.23
3.	MT VINCENT HOLDINGS PTY LTD	36,923,076	3.71
4.	CITICORP NOMINEES PTY LIMITED	30,190,926	3.04
5.	J P MORGAN NOMINEES AUSTRALIA LIMITED	13,584,252	1.37
6.	PORTFOLIO SERVICES PTY LTD	6,265,403	0.63
7.	HSBC CUSTODY NOMINEES <AUSTRALIA>	5,378,551	0.54
8.	NATIONAL NOMINEES LIMITED <DB A/C>	5,344,500	0.54
9.	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	4,912,614	0.49
10.	CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	4,413,387	0.44
11.	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	1,744,910	0.18
12.	PORTFOLIO SERVICES PTY LTD	1,740,239	0.18
13.	OSENDO PTY LIMITED	1,713,294	0.17
14.	MR BAOCAI ZHANG	1,162,790	0.12
15.	HSBC CUSTODY NOMINEES <AUSTRALIA>	1,000,003	0.10
16.	MR STUART JAMES HARVEY	600,119	0.06
17.	OSENDO PTY LIMITED	480,709	0.05
18.	MRS CHUNYAN YUE	400,000	0.04
19.	MR YUNING LONG	399,171	0.04
20.	MR MALCOLM SAUER + MRS MANDY SAUER <SAUER SUPER FUND A/C>	392,155	0.04
Total Top 20 holders of Ordinary Fully Paid		**983,899,719**	**98.96**
Total Remaining Holders Balance		**10,316,940**	**1.04**

CORPORATE DIRECTORY

DIRECTORS
Xiyong Li
Cunliang Lai
Baocai Zhang
Yuxiang Wu
Fuqi Wang
Gregory Fletcher
Boyun Xu
William Randall
Geoffrey Raby
Vincent O'Rourke
Huaqiao Zhang

COMPANY SECRETARY
Laura Ling Zhang

REGISTERED AND PRINCIPAL PLACE OF BUSINESS
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AUSTRALIAN COMPANY NUMBER
111 859 119

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ASX Code: YAL

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COUNTRY OF INCORPORATION
Australia

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