

Yancoal Australia Ltd

ABN 82 111 859 119

Annual Financial Report for the year ended 31 December 2016

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1. Results for Announcement to the Market

	31 December 2016 \$M	31 December 2015 \$M	% Change
Revenue from ordinary activities	1,238.3	1,319.1	(6)
Loss before income tax (before non-recurring items)	(296.5)	(360.1)	13
Loss before income tax (after non-recurring items)	(311.8)	(353.8)	12
Loss from ordinary activities after income tax attributable to members (before non-recurring items)	(226.2)	(297.5)	24
Net loss for the year attributable to members (after non-recurring items)	(227.1)	(291.2)	22

2. Earnings per share

	31 December 2016 \$	31 December 2015 \$	% Change
Loss per share (before non-recurring items)*	(0.23)	(0.30)	23
Loss per share (after non-recurring items)*	(0.23)	(0.29)	21

* Loss per share is based on the loss after income tax from continuing operations.

3. Net tangible assets per security

	31 December 2015 \$	31 December 2014 \$	% Change
Net tangible assets per share	(0.91)	(0.57)	(59)

4. Distributions

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2015: nil).

Subordinated Capital Notes distributions

	31 December 2016 US\$ per SCN	31 December 2015 US\$ per SCN
Interim distribution paid on 29 July 2016 (2015 paid 31 July 2015)	3.51	4.07
Final distribution to be accrued as at 31 December 2016 (31 December 2015 accrual, paid on 29 January 2016)	3.50	3.49
	7.01	7.56

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

a. Acquisitions

No entities were incorporated or acquired during the year.

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

b. Loss of control

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

- Watagan Mining Company Pty Ltd ("Watagan") which include the three NSW underground coal mining operations of Ashton, Austar and Donaldson.

Control of Watagan will pass back to Yancoal at the end of the term of the bond subscription agreement in 2025, or earlier if control over Watagan is determined to pass back to the Group (including if the bondholders were to exercise their put options, 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).

c. Disposals

No entities were disposed during the financial period

6. Details of associates and joint venture entities

	31 December 2016		31 December 2015	
	Holdings %	Profit / (loss) after income tax contribution \$M	Holdings %	Profit / (loss) after income tax contribution \$M
<i>Joint venture entities</i>				
Moolarben Joint Venture (unincorporated)	81	125.3	81	36.7
Boonal Joint Venture (unincorporated)	50	Not material	50	Not material
Middlemount Coal Pty Ltd	49.9997	(5.1)	49.9997	(37.2)
<i>Associate entities</i>				
Newcastle Coal Infrastructure Group Pty Ltd	27	Nil	27	Nil
Watagan Coal Mining Company Pty Ltd	100	Nil	N/A	N/A

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

Directors' report

The Directors present their report on the consolidated entity ("Yancoal" or "the Group") consisting of Yancoal Australia Ltd ("the Company") and the entities it controlled at the end of, or during, the year ended 31 December 2016.

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
Fuqi Wang
Gregory Fletcher
Boyun Xu
William Randall
Geoffrey Raby
Vincent O'Rourke
Huaqiao Zhang
Lei Zhang (alternate director for Huaqiao Zhang for the board meeting of the Company on 17 August 2016)
Reinhold Schmidt (alternate director for Boyun Xu for the board meeting of Company on 13 January 2017)

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.

In April 2016 Yancoal and the Austar¹ operation received formal notification from the Department of Industry, Resources and Energy confirming it would not be instituting prosecution proceedings related to the investigation into the Austar underground incident of 15 April 2014.

In August 2016, a small coal burst occurred in the main working area of the Austar underground mine. Following a thorough and immediate review by Yancoal (in its capacity as the management services provider to Austar mine) and the relevant New South Wales Government departments, the Austar mine implemented additional safety barriers and controls in the working area prior to the resumption of mining.

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 2016 amounted to \$227.1 million (31 December 2015: \$291.2 million).

Significant global thermal coal market price improvements and the establishing of 2016 industry-high quarterly benchmark prices for semi-soft coking and PCI coal during the second half, drove sales volume increases and earnings improvements for the fourth quarter of the reporting period.

Yancoal responded to sustained low coal prices and existing operating cashflow constraints in the first half of the year via a debt funding arrangement and transfer of control of the Austar, Ashton and Donaldson operations to a newly established Yancoal subsidiary, Watagan Mining Company Pty Ltd ("Watagan"), as announced 17 February 2016.

¹ Austar controlled by Watagan Mining Company Pty Ltd ("Watagan"), from 31 March 2016

Cost reduction strategies continued to be supported at all operations, with the Moolarben Stage Two project delivering critical development and construction goals on time and on budget, including the commencement of development coal from the new Moolarben underground and opening of the new open cut box cut.

Throughout 2016, Yancoal continued to restructure its operations, maximise blending across the New South Wales mine sites (operated and managed), and proactively managed its existing take or pay arrangements.

Corporate activities

On 17 February, Yancoal announced a new financing arrangement to secure up to US\$950 million in debt-funding via the issuing of nine-year secured debt bonds by newly established Yancoal subsidiary Watagan, to Industrial Bank Co. Ltd, BOCI Financial Products Limited ("BOCI") and United NSW Energy Limited. The subsidiaries of Watagan include the three NSW underground coal mining operations of Ashton, Austar and Donaldson.

On and from financial close of the arrangement, effective 31 March, Yancoal ceased to control Watagan and its subsidiaries, including the NSW underground assets of Austar, Ashton and Donaldson. Yancoal will provide mine management, marketing, infrastructure and other corporate support services for the Watagan mines under 10-year contracts.

As part of the arrangement for the subscription and issue of the secured debt bonds, and as announced 1 April 2016, BOCI was to subscribe for the remaining US\$175 million of BOCI's total proposed subscription of US\$375 million by 30 September 2016. However, all parties agreed to extend BOCI's subscription date in respect of that US\$175 million amount to 31 March 2017.

The Ashton, Austar and Donaldson mines are managed by Yancoal Mining Services Pty Ltd ("YMS"), a fully-owned Yancoal subsidiary and employing entity for all eastern region underground operations staff, established during the reporting period.

On 2 March 2016, Yancoal announced the Donaldson operation was to move to 'care and maintenance' during the first half of the year, following the cessation of mining activities and the commencement of new feasibility studies. Mining ceased at Donaldson's Abel underground mine on 6 June 2016.

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

In NSW, Yancoal continued to operate the Moolarben and Stratford Duralie open cut mines throughout the reporting period, with control of the underground mines of Austar, Ashton and Donaldson transferring to Watagan from 31 March 2016. Yancoal continued to manage the assets on behalf of Watagan throughout the reporting period.

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

Fleet and mine plan efficiencies at Yancoal's Moolarben and Yarrabee open cut mines drove strong production throughout the reporting period, with the Group achieving total Run of Mine ("ROM") coal production of 26.2 million tonnes ("Mt") (21.2 Mt equity share) for the year (31 December 2015: 20.8Mt equity share) and saleable coal production of 19.8Mt (16.0 Mt equity share) for the year (31 December 2015: 15.2Mt equity share).

2016's total production result was above the previously published operational guidance of 13.0Mt saleable coal (equity share), as Yancoal responded to increased market demand and global coal market price improvements during the second half of the year.

Total coal sales (equity share) were 19.3Mt for the year (31 December 2015: 17.8Mt).

Yancoal's sales split (equity share) for the period was 11.6Mt (2015 10.2Mt) thermal and 7.7Mt (2015 7.6Mt) metallurgical coal.

Yancoal continued to manage the Cameby Downs and Premier coal mining operations in Queensland and Western Australia respectively, on behalf of its majority shareholder Yanzhou Coal Mining Company Limited ("Yanzhou") throughout the reporting period.

New South Wales

NSW operations achieved total ROM coal production of 17.3Mt (2015 16.5Mt) (Yancoal-controlled² 13.4Mt, Watagan-controlled² 3.9Mt) and saleable coal production of 12.6Mt (2015 11.8Mt) (Yancoal-controlled 10.2Mt, Watagan-controlled 2.4Mt) for the period.

² All "Yancoal-controlled" production includes Ashton, Austar and Donaldson coal prior to 31 March.

Consistently strong production gains at Moolarben's open cut operation as a result of established fleet and mine plan efficiencies, helped offset a slow-down in production at the Stratford Duralie open cut.

The Moolarben Complex (Yancoal 81% ownership) achieved total ROM production of 12.2Mt ROM (2015 9.0Mt) and saleable coal production of 9.3Mt (2015 6.9Mt).

The continued ramp up in Moolarben's open cut production benefiting from the opening of the Mod 9 mining area and establishing of new throughput efficiencies in the first half of the year.

Construction of the Moolarben Stage Two underground mine continued in accordance with project targets, with first development coal from the new Stage Two underground commencing in April and extraction of the Stage Two open cut box cut occurring in July.

Ongoing geological challenges within the Stratford Duralie open cut mining area affected production performance throughout the year, resulting in significantly reduced production rates in the second half of the year as the operation commenced a redesign of the mine plan and adjustment of operating conditions. The interruptions to mining resulting in total ROM coal production of 1.2Mt (2015 1.9Mt) and saleable coal production of 0.9Mt (2015 1.4Mt) for the reporting period.

Queensland

Yarrabee (Yancoal 100% ownership) maintained consistently strong production rates throughout the reporting period, overcoming detrimental wet weather impacts and flooding conditions in the first quarter of the year, to deliver above targets with a total ROM coal production of 3.6Mt (2015 3.4Mt) and total saleable coal production of 3.1Mt (2015 2.8Mt).

Yarrabee's increased production output in the second half of the year benefitting from positive changes made to existing shift arrangements, supported by established fleet and Coal Handling and Processing Plant efficiencies introduced in the year prior.

The Middlemount joint venture (Yancoal ~50% ownership) maintained steady production rates throughout 2016, overcoming similar wet weather impacts experienced at Yancoal's Yarrabee operation, to produce total annual ROM coal production of 5.3Mt (2015 5.5Mt) and total saleable coal production of 4.1Mt (2015 4.1Mt).

Watagan-controlled³

Ashton (Yancoal 100% ownership³) achieved total ROM coal production of 2.4Mt (2015 3.0Mt) and saleable coal production of 1.1Mt (2015 1.4Mt) for the year.

On 20 June 2016, the NSW Planning and Assessment Commission (PAC) granted approval for the Ashton Mod 5 (integration modification). The modification enables Ashton to increase underground production from 2.95 Mt per annum ROM to 5.0Mt per annum ROM and contemporise the conditions of the existing Ashton coal mine.

Austar (Yancoal 100% ownership³) development coal production rates throughout 2016 were buoyed by significant improvements in longwall production during the second half, to achieve total ROM coal production of 1.2Mt (2015 0.8Mt) and saleable coal production of 1.1Mt (2015 0.7Mt).

Production gains achieved in the second half offset an unscheduled shutdown of the longwall in August, following a small coal burst in the main working area.

The Donaldson (Yancoal 100% ownership³) operation's Abel underground mine produced a total 0.3Mt of ROM coal (2015 1.8Mt) and 0.2Mt (2015 1.3Mt) of saleable coal for the reporting period, in accordance with expectations.

As announced 2 May 2016, the Donaldson coal operation was moved to 'care and maintenance', with mining ceasing at the Abel underground mine in June 2016 and commencing new feasibility studies.

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 14.6Mt per annum (100% basis). The Moolarben Coal mine is the largest of Yancoal's Hunter based mines to use the terminal.

³ The Watagan-controlled Ashton, Austar and Donaldson operations remain 100% Yancoal owned subsidiaries

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 11.9Mt (100% basis).

Wiggins Island Coal Export Terminal ("WICET") (Yancoal 7.5%)

Yancoal is one of five owners of WICET, which has a capacity of 27Mt per annum. Yancoal's contracted capacity is 1.5Mt 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 license 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 2016, Yancoal invested approximately \$445,727 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.

Environmental regulation

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

Greenhouse gas and energy data reporting requirements

The *National Greenhouse and Energy Reporting Act 2007 Cth* ("NGER") requires Yancoal to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and submitted its 2015/2016 s19 Energy & Emissions Report to the Federal Clean Energy Regulator on 31 October 2016.

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

Significant changes in the state of affairs

There have been no significant changes to the state of affairs during the financial year that 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, on 24 January 2017, Yancoal announced it has entered into a binding agreement to acquire 100% of the shares in Coal & Allied Industries Limited ("Coal & Allied") from wholly-owned subsidiaries of Rio Tinto Limited for US\$2.45 billion⁴ (A\$3.27 billion⁵) in completion and deferred cash payments, plus a coal price linked royalty (the "Transaction").

The Transaction is subject to a number of closing conditions, including Rio Tinto plc and Rio Tinto Limited shareholder approval, Yanzhou shareholder approval and various regulatory approvals. The Transaction is expected to complete in the third quarter of 2017.

⁴ Comprises US\$1.95 billion cash payment at completion and US\$500 million in aggregate deferred cash payments, payable as annual instalments of US\$100 million over five years following completion.

⁵ Based on an AUD/USD exchange rate of 0.75

In accordance with the Terms of Issue of the Subordinated Capital Notes ("SCN") issued by Yancoal SCN Limited in December 2014, the next distribution payment date for the SCNs occurred on 31 January 2017. The distribution was paid at a rate of 7% per annum or US\$3.50 per SCN. The total amount distributed was US\$63.0 million.

Likely developments and expected results of operations

Guidance for saleable production in 2017 is 12.0Mt - 12.5Mt (equity share). Forecast for 2017 capital expenditure is approximately \$244m (equity share).

Information on Directors

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

Experience and expertise

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

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

Other current key directorships

Chairman of Yanzhou Coal Mining Company Limited
Chairman and the Secretary of the Party Committee of Yankuang Group
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. Executive Director (18 November 2004 – 19 January 2014), Co-Vice Chairman (26 June 2012 – Current), Non-Executive Director (20 January 2014 – Current). DE, EMBA.

Experience and expertise

Mr Lai joined Yanzhou's predecessor in 1980. He was appointed as the Head of Xinglongzhuang Coal Mine of Yanzhou in 2000. In 2005, he was appointed as the Deputy General Manager of Yanzhou. Before the merger with Gloucester Coal Ltd, Mr Lai was an Executive Director of Yancoal and was appointed the Co-Vice Chairman and Chair of the Executive Committee in 2012. Mr Lai successfully completed the acquisition of the Austar Coal Mine and the establishment of an appropriate corporate governance structure for Yancoal. Mr Lai has also successfully applied the Longwall Top Coal Caving technology in Australia and has gained considerable experience in Australian coal business management. Mr Lai graduated from Nankai University and the Coal Science Research Institute. He is a researcher in engineering technology application with a Doctorate in Engineering and an EMBA degree.

Other current key directorships

None

Former directorships in last three years

Director of Bauxite Resources Limited (resigned on 21 January 2016)

Special responsibilities

Co-Vice Chairman of the Board
Member of Nomination and Remuneration Committee

Interests in shares and options

None

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

Experience and expertise

Mr Zhang joined Yanzhou's predecessor in 1989 and was appointed as the Head of the Planning and Finance department of Yanzhou in 2002. He was appointed as a Director and Company Secretary of Yanzhou in 2006 and Deputy General

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

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

Other current key directorships

Director of Yankuang Group Company Limited
Director of Yanzhou Coal Yulin Neng Hua Co., Ltd
Director of Inner Mongolia Haosheng Coal Mining Limited
Director of Yancoal International (Holding) Co., Ltd
Director of Yancoal SCN Limited

Former directorships in last three years

Director of Yanzhou Coal Mining Company Limited

Special responsibilities

Co-Vice Chairman of the Board
Chairman of the Executive Committee
Chairman of the Strategy and Development Committee

Interests in shares and options

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 2004, Mr Wu was appointed a Director of Yancoal. Mr Wu was appointed as the Deputy Chief Accountant and the Head of Department of Investment and Development of Yankuang Group in January 2016. He has considerable experience in financial management and business development in the coal industry. He also has extensive experience in organisational accounting, financial control, capital management, risk management and corporate compliance for Yanzhou and Yancoal.

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

Other current key directorships

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

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

Experience and expertise

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

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

Other current key directorships

Yanmei Heze Neng Hua Co., Ltd

Former directorships in last three years

None

Special responsibilities

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

Interests in shares and options

None

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

Experience and expertise

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

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

Other current key directorships

Director of Premier Coal Limited
Director of Yancoal International (Sydney) Pty Ltd
Director of Yancoal SCN Limited
Director of Yankuang Bauxite Resources Pty Ltd

Former directorships in last three years

None

Special responsibilities

Member of the Executive Committee

Interests in shares and options

None

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

Experience and expertise

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

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

Other current key directorships

Director of Noble Group Limited
Director of various subsidiaries of Noble Group Limited Subsidiaries

Former directorships in last three years

Director of Blackwood Corporation Limited
Alternate Director of East Energy Resources Limited
Alternate Director of Cockatoo Coal Limited

Special responsibilities

Member of Nomination and Remuneration Committee.

Interests in shares and options

None

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

Experience and expertise

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

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

Other current key directorships

Chairman of SMEG Australia Pty Ltd
Director of Yancoal SCN Limited
Director of Saunders International Limited
Director of TAFE NSW and Member of the Audit and Risk Committee
Chair, Audit and Risk Committee, Roads & Maritime Services
Member of Audit and Risk Committee, Railcorp
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

Special responsibilities

Chairman 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 - Current). BEc (Hons), MEd and PhD (Economics).

Experience and expertise

Dr Geoffrey Raby was appointed a Director of Yancoal in 2012. He was Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade (DFAT). Dr Raby has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998–2001), Australia's APEC Ambassador (2003–2005), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of

the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex officio member of the Boards of Austrade and Export Finance and Insurance Corporation (EFIC).

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

Other current key directorships

Director of Oceana Gold Corporation Limited
Director of iSentia Group Ltd

Former directorships in last three years

Director of Fortescue Metals Group
Chairman of SmartTrans Holding Limited
Director of YPB Group Ltd

Special responsibilities

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

Interests in shares and options

None

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

Experience and expertise

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

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

Other current key directorships

Chairman of Rail Innovation Australia Pty Ltd
Deputy Chairman of Mater Health Services Brisbane Limited
Chairman of Holy Cross Laundry Pty Ltd
Director of White Energy Company Limited
Director of Queensland Museum Foundation
Director of Yancoal SCN Limited

Former directorships in last three years

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

Special responsibilities

Chairman of Health, Safety and Environment Committee

Interests in shares and options

250,000 fully paid Yancoal ordinary shares

Huaqiao Zhang. Non-Executive Director (15 April 2014 - Current). MEd

Experience and expertise

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

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

Dr Lei Zhang. Alternate Director for Huaqiao Zhang (on 17 August 2016). MBA and PhD (Economics)

Experience and expertise

Dr Zhang has been the Chief Financial Officer of Yancoal Australia Ltd since January 2014.

He has previously served as the Managing Director of Mergers and Acquisitions at Shell Far East, Executive Director & Chief Financial Officer of Chinalco Mining Corp. International and Vice President & Chief Financial Officer of Chinalco Overseas Holdings.

He received his PHD of Economics from China Academy of Social Science Institute and his MBA from Peking University.

Other current key directorships

Director of various subsidiaries of Yancoal Australia Ltd

Former directorships in last three years

Director of Yancoal SCN Limited

Special responsibilities

Chief Financial Officer of Yancoal Australia Ltd
Member of the Executive Committee

Interests in shares and options

None

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

Experience and expertise

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

Other current key directorships

Director of various subsidiaries of Yancoal Australia Ltd

Former directorships in last three years

Director of Yancoal SCN Limited

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

Special responsibilities

Chief Executive Officer of Yancoal Australia Ltd

Member of the Executive Committee

Interests in shares and options

135,781 fully paid Yancoal ordinary shares in Yancoal Australia Ltd

80 Subordinated Capital Notes issued by Yancoal SCN Limited

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	4	4					1	1				
Cunliang Lai	3	4					1	1				
Baocai Zhang	4	4							1	1		
Yuxiang Wu	3	4	3	5					1	1		
Fuqi Wang	4	4			3	5			1	1		
Boyun Xu	4	4										
William Randall	3	4					1	1				
Gregory Fletcher	4	4	5	5							13	13
Geoffrey Raby	3	4	4	5	5	5					10	13
Vincent O'Rourke	4	4			5	5					12	12
Huaqiao Zhang	3**	4							0	1	3	11

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 ("IBC") was constituted 4 times under different protocols for the purpose of considering related party transactions with the Company's major shareholder, Yanzhou. 2 out of 13 IBC meetings were the IBC Steering Committee meetings, of which Huaqiao Zhang is not a member. Vincent O'Rourke was not a member of one of the IBC's constituted in 2016 due to the risk of an actual or perceived conflict of interest in respect of the particular matters to be addressed by the IBC arising from his directorship at the time in various subsidiaries of Yanzhou.

** Huaqiao Zhang appointed Lei Zhang as an alternate director to act on his behalf, solely for the board meeting of the Company on 17 August 2016

Remuneration Report – Audited

Dear Shareholder,

I am pleased to introduce the Yancoal Australia Ltd (the “Company”) and its controlled entities (the “Group”) 2016 Remuneration Report.

Over 2016, 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 2016 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; and
- 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 2016.

Yours sincerely,



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

Contents

1. Key Management Personnel
2. Remuneration principles and framework
3. Executive remuneration
4. Service agreements
5. Non-executive Director fees
6. Remuneration tables
7. Equity instrument disclosures
8. Other transaction with and loans to Key Management Personnel

1. Key Management Personnel

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

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

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

TABLE 1: Details of Key Management Personnel

Name	Position	Time in Role
	Non-Executive Directors	
Xiyong Li	Director Chairman of the Board Chairman of the Nomination and Remuneration Committee	Full year
Cunliang Lai	Director, Co-Vice Chairman Chairman of Strategy and Development Committee Member of the Nomination and Remuneration Committee	Full year
Yuxiang Wu	Director Member of the Audit and Risk Management Committee Member of the Strategy and Development Committee	Full year
William Randall	Independent Director Member of the Nomination & Remuneration 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
Fuqi Wang	Director Member of the Health, Safety and Environment Committee Member of the Strategy and Development Committee	Full year
Gregory Fletcher	Independent Director Chairman of the Audit and Risk Management 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
	Senior Executives	
Reinhold Schmidt	Chief Executive Officer ("CEO")	Full year
Lei Zhang	Chief Financial Officer ("CFO")	Full year

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

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 and, other members of the Executive Committee. On these issues, the Board receives recommendations from the Nomination and Remuneration Committee.

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

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

It had been intended to review the Long Term Incentive Plan ("LTIP") during 2016, however due to more pressing priorities the review has been postponed until 2017. 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 2017.

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

NAME	Fixed Remuneration (excl. benefits) ^A		At risk – Short Term Incentive Plan ^B		At risk - Special Incentive Scheme ^C		At risk – Long Term Incentive Plan ^D	
	2016	2015	2016	2015	2016	2015	2016	2015
Reinhold Schmidt	24%	28%	29%	30%	10%	11%	37%	31%
Lei Zhang	52%	53%	27%	22%	16%	20%	5%	5%
Baocai Zhang	50%	47%	37%	35%	13%	18%	Not applicable	Not applicable

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

^A Calculations for fixed remuneration entitlement exclude the value of benefits, see table 3 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 Special Incentive Scheme is outlined in section 3.5.2

^D The Long Term Incentive Plan is outlined in section 3.5.3

3.4 Fixed Remuneration

Fixed remuneration comprises cash salary, superannuation and other benefits. In recognition of the Company’s financial performance, no fixed remuneration increases were awarded in 2016.

Executives receives a salary package, in the form of a FAR package, which incorporates cash salary, superannuation benefits and may include a provision for a car allowance, together with certain other benefits.

Senior 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.

Senior 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.

Senior 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 STI Plan (as outlined in section 3.5.1) and a Special Incentive Scheme (as outlined in section 3.5.2). Certain Executives are also eligible to participate in a LTI Plan (as outlined in section 3.5.3).

3.5.1 Short Term Incentive Plan

Eligibility

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

Objective

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

Structure

For 2016 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 2016. The CEO has an agreed STI opportunity of between a minimum of 75% and a maximum of 126% of FAR for 2016. 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 operating and capital expenditure budgets, and achievement of growth / continuous improvement initiatives. Based on performance against the KRAs, the Executive receives a performance rating at the end of the year on a scale from Exceptional to Below Standard. In the case of the Chief Executive Officer, individual performance is assessed by the Nomination and Remuneration Committee, to be endorsed by the Board. For all other Executive's, performance is assessed by the Chief Executive Officer and the Chair of the Executive Committee.

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

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

Further detail on the STI Scorecard – 2016

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

2016 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 2016

STI scorecard category	STI Scorecard	STI Weighting	Actual performance against KPI
Profitability	Profit Before Tax ("PBT")	20%	197%
	FOR Cash Costs	35%	111%
HSE	TRIFR (Total recordable injury frequency rate)	20%	105%
	Environment	10%	0%
Business Unit measures	Two business unit measures customised to each Executive's role	15%	114%

The assessed outcomes and average achievement for the company of 134% reflects the following achievements in 2016:

- (a) the overall delivery of Profit Before Tax for the Group and the assets managed on behalf of Yancoal International Holdings ("YIH") of \$230M 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 114% for each Business Unit measure; and

Environment measures include environmental complaints and incidents.

3.5.2 Special Incentive Scheme

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

Eligibility

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

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

	CEO	CFO	CEC
	Special Incentive Scheme	Special Incentive Scheme	Special Incentive Scheme
Amount Awarded ^A	\$452,890	\$120,000	\$176,000
Trance Year 2015	\$150,963	\$40,000	\$58,666
Trance Year 2016	\$150,963	\$40,000	\$58,666
Trance Year 2017	\$150,964	\$40,000	\$58,666

^A Amount awarded has been corrected from \$123,200 to \$176,000 for Mr Baocai Zhang than was reported in the 2015 annual report.

3.5.3 Long Term Incentive Plan

The key characteristics of the LTI plan are outlined below.

TABLE 6: LTI operation

Eligibility	Reinhold Schmidt, Lei Zhang, Baocai Zhang and other Senior Management are eligible to participate in the LTI Plan.
Objective	The objective of the LTI Plan is to reward and retain certain Senior Management who are in positions to influence the Company's long-term performance.
Allocation frequency	Each year, eligible Executives are considered for an annual LTI grant. The LTI is subject to the satisfactory performance of the Company and service-based vesting conditions.
LTI opportunity	The Chair of the Executive Committee and the Chief Executive Officer have an annual LTI opportunity between 100% and 150% of FAR. The Chief Financial Officer 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.

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

Reinhold Schmidt (CEO) LTIP	2013	2014	2015	2016
Amount Awarded	\$119,322	\$1,271,266	\$1,266,158	\$1,726,578
% of maximum Achieved	100%	110%	110%	150%
Tranche Year				
2017	\$39,774	\$423,755	Not applicable	Not applicable
2018	\$39,774	\$423,755	\$422,052	Not applicable
2019	\$39,774	\$423,756	\$422,053	\$575,526
2020	Not applicable	Not applicable	\$422,053	\$575,526
2021	Not applicable	Not applicable	Not applicable	\$575,526

Lei Zhang (CFO) LTIP	2014	2015	2016
Amount Awarded	\$31,780	\$45,000	\$54,104
% of maximum Achieved	100%	100%	100%
Tranche Year			
2017	\$10,593	Not applicable	Not applicable
2018	\$10,593	\$15,000	Not applicable
2019	\$10,594	\$15,000	\$18,034
2020	Not applicable	\$15,000	\$18,034
2021	Not applicable	Not applicable	\$18,035

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

3.6 Share Trading Policy and Insider Trading Policy

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

The Share Trading Policy precludes relevant employees from entering into any hedge or derivative transactions relating to unvested options or share rights granted to them under incentive plans and securities that are subject to holding locks or restrictions from dealing under such plans. There are also restrictions regarding margin lending arrangements, hedging and short-term trading of the Company's securities. A copy of the Share Trading Policy and the Insider Trading Policy are 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 and LTI plans. Cash awards under these plans are significantly impacted by the overall performance of the Company. See Sections 3.5.1, 3.5.2 and 3.5.3 for further detail.

The Company's earnings and delivery of shareholder wealth for the past four years is outlined in the table below.

TABLE 8: Yancoal's performance (\$)

	31 December 2016	31 December 2015	31 December 2014	31 December 2013	31 December 2012
PBT	(311.8M)	(353.8M)	(270.9M)	(1,114.5M)	125.5M
Basic EPS	(0.23)	(0.29)	(0.36)	(0.84)	0.42
Closing share price	0.49	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 ("ESA") with the Company.

TABLE 9: Certain ESA terms for each of the Executives

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

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

^B Notice period applicable if the Executive resigns.

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

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 2016, excluding payments for extra services outlined below, was \$647,652 which is \$2,852,348 below the current aggregate cap of \$3,500,000 per annum.

During 2016, 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 2015 to 2016. No equity instruments were issued to Non-Executive Directors over 2016 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, Cunliang Lai, Yuxiang Wu, Fuqi Wang 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

	2016 \$
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 2016 the Company made total payments of \$70,055 (\$45,750 in 2015) 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 the acquisition from Rio Tinto of the remaining Coal & Allied coal assets held by Rio Tinto being, principally, Rio Tinto's interest in the Hunter Valley Operations mine and the Mount Thorley Warkworth mines.

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

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 2016 and 2015.

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 Executives' Remuneration earned in 2016

Name		Short Term Benefits				Long Term Benefits			Special Incentive Scheme	Total (including other fees)
		Cash Salary	STI and bonus	Non-monetary benefits ⁱ	Other short term employee benefits	Superannuation benefits	Long Service Leave	LTI opportunity		
Reinhold Schmidt	2016	1,129,056	1,441,262	127,145	Nil	42,846	36,412	1,726,578	Nil	4,503,299
	2015	1,131,745	1,208,605	143,145	Nil	19,308	9,503	1,266,158	452,890	4,231,354
Lei Zhang	2016	345,519	256,250	7,616	Nil	19,462	3,954	54,103	Nil	686,904
	2015	301,641	127,723	16,164	30,000	19,308	1,252	45,000	120,000	661,088
Baocai Zhang	2016	317,952	404,712	2,805	Nil	19,461	8,770	Nil	Nil	753,700
	2015	315,726	344,481	24,804	119,386	19,308	1,152	Nil	176,000	1,000,857
Total	2016	1,792,527	2,102,224	137,566	Nil	81,769	49,136	1,780,681	Nil	5,943,903
	2015	1,749,112	1,680,809	184,113	149,386	57,924	11,907	1,311,158	748,890	5,893,299

The amount included above has been updated from those presented in the 2015 remuneration report where amounts reported differed to actual amounts paid during 2016

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

- Reinhold Schmidt – car parking, accommodation
- Lei Zhang – car parking, Qantas Club Membership
- Baocai Zhang – medical insurance
- Baocai Zhang STI/Bonus and the SIS figures have been updated from \$245,481 and \$123,200 reported in 2015
- 2016 Short Term Bonus and Special Incentive Scheme figures for Reinhold Schmidt, Baocai Zhang and Lei Zhang are accrued figures to be paid around April 2017
- Special Incentive Scheme figures are a one off arrangement

TABLE 12: Details of STI opportunities and Short Term Bonus granted to Executives in 2015 and 2016

Name	Year	STI \$ ^A	Other Short Term Bonus \$ ^B	Total STI and Short Term Bonus \$	STI % of maximum entitlement granted	STI % of maximum entitlement forfeited
Reinhold Schmidt	2016	1,381,262	60,000	1,441,262	95%	5%
	2015	1,208,605	-	1,208,605	83%	17%
Lei Zhang	2016	196,250	60,000	256,250	129%	0%
	2015	127,723	-	127,723	100%	0%
Baocai Zhang	2016	344,712	60,000	404,712	60%	40%
	2015	344,481	-	344,481	60%	40%

^A 2016 STI figure for Reinhold Schmidt, Baocai Zhang and Lei Zhang are to be paid around April 2017.

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

TABLE 13: Details of Non-Executive Directors' Remuneration, earned in 2016 and 2015

Name	Year	Short Term Benefits			Post-Employment Benefits		Total
		Fees	STI or Bonus	Non-Monetary Benefits	Superannuation	Long Service Leave	
Non-Executive Directors							
Xiyong Li	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil
Huaqiao Zhang	2016	94,273 ^B	Nil	Nil	8,956	Nil	103,229
	2015	96,033	Nil	Nil	8,696	Nil	104,729
Cunliang Lai	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil
Yuxiang Wu	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil
William Randall	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil
Xinghua Ni	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil
Fuqi Wang	2016	Nil	Nil	Nil	Nil	Nil	Nil
	2015	Nil	Nil	Nil	Nil	Nil	Nil
Gregory Fletcher	2016	214,453 ^C	Nil	Nil	20,373	Nil	234,826
	2015	197,214	Nil	Nil	16,462	Nil	213,676
Geoffrey Raby	2016	174,138 ^D	Nil	Nil	15,688	Nil	189,826
	2015	171,888	Nil	Nil	15,688	Nil	187,576
Vincent O'Rourke	2016	174,138 ^E	Nil	Nil	15,688	Nil	189,826
	2015	169,638	Nil	Nil	16,116	Nil	185,754
Total	2016	657,002	Nil	Nil	60,705	Nil	717,707
	2015	634,773	Nil	Nil	56,962	Nil	691,735

Includes following transaction specific remuneration paid during the year ended 31 December 2016:

^B Huaqiao Zhang – \$2,740

^C Gregory Fletcher - \$49,315

^D Geoffrey Raby - \$9,000

^E Vincent O'Rourke - \$9,000

7. Equity instrument disclosures

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

- (i) Mr Gregory Fletcher:
 - holds 1,000 fully paid ordinary shares in Yancoal Australia Ltd. There were no movement in these shares in 2016, and
 - holds 24 Subordinated Capital Notes issued by Yancoal SCN Limited ("Yancoal SCN"), a wholly owned subsidiary of Yancoal Australia Limited, at their issue price of US\$100 each.
- (ii) Mr Reinhold Schmidt:
 - holds 135,781 fully paid ordinary shares in Yancoal Australia Ltd. There were no movement in these shares in 2016; and
 - holds 80 Subordinated Capital Notes issued by Yancoal SCN, at their issue price of US\$100 each.
- (iii) Mr Baocai Zhang holds 1,162,790 fully paid ordinary shares in Yancoal Australia Ltd. There were no movement in these shares in 2016.
- (iv) Mr Vincent O'Rourke holds 250,000 fully paid ordinary shares in Yancoal Australia Ltd. There were no movement in these shares in 2016.
- (v) On 17 August 2016, Mr Gregory James O'Rourke (being a related party of Mr Vincent O'Rourke) acquired 40,000 fully paid ordinary shares in Yancoal Australia Ltd.
- (vi) No other key management personnel held any shares in respect of Yancoal Australia Ltd or its related entities at, or during the year ended 31 December 2016.

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 E2) 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 Group. The Directors have not included details of the nature of the liabilities covered and the amount of premium paid in respect of the Directors' and Officers' Liability insurance policy as such disclosure is prohibited under the terms of insurance contracts.

Proceedings on behalf of the Company

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

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

Non-audit services

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

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

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Management Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of

independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

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

	2016	2015
Shine Wing Australia		
Audit and other assurance services	786,000	741,000
Audit of regulatory services	26,000	24,000
Other assurance services	425,000	120,000
Taxation compliance	8,500	-
Total services remuneration of ShineWing Australia	1,245,500	885,000

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 30.

Rounding of amounts

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

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



Mr Baocai Zhang

Director
 Sydney

28 February 2017

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

I declare that to the best of my knowledge and belief, during the year ended 31 December 2016 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

M J Schofield
Partner

Melbourne, 28 February 2017

Corporate Governance Statement

Introduction

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

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

Principle 1: Lay solid foundations for management and oversight

Role of the Board

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

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

Delegation to management

The Board delegates responsibility for the day to day management of the Company's affairs and implementation of the strategy and policy initiatives set by the Board to the Chair of the Executive Committee (CEC), the Chief Executive Officer (CEO) and other senior executives. The Executive Committee is a management committee comprising the CEC, CEO, the Chief Financial Officer (CFO) and any other senior executives that the Board resolves from time to time will be members of the Executive Committee.

The Executive Committee Charter sets out the functions of the Executive Committee and the duties of the CEC, CEO and CFO. The Executive Committee Charter also provides the financial decision authorities and appropriate approval thresholds at different levels which have been approved by the Board.

Senior executive contracts

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

Company Secretary

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

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

Nomination and appointment of Directors

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

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

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

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

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

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

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

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

Shareholder approval is required for the appointment of directors. However, directors may appoint other directors to fill a casual vacancy where the number of directors falls below the constitutional minimum number of directors and in order to comply with any applicable laws, regulations or the ASX Listing Rules. If a director is appointed to fill a casual vacancy in these circumstances, the approval of members must be sought at the next general meeting.

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

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

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

Diversity

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

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

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 2016 and the Company's performance against the measurable objectives are outlined in the table below:

Objective	Performance
1. To increase employee awareness and understanding of the importance of diversity by implementing training on the Company's Diversity Policy and Workplace Behaviour & Anti-Discrimination Policy.	<p>The Company ran training sessions on site in 2016 on the Code of Conduct and Workplace Bullying and Harassment. 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.</p> <p>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.</p>
2. To target a diverse group of candidates with recruitment and selection procedures that are merit-based and non-discriminatory.	<p>Across the Yancoal group, merit-based, non-discriminatory practices are adhered to in the recruitment of new employees.</p>
3. To ensure our managers are adept recruiters, retainers and motivators of our diverse workplace.	<p>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.</p> <p>The "Yancoal Way" continues to be rolled out across the Group. The message of continuous improvement and 'blue bus' thinking is promoted during recruitment, induction and performance reviews to promote a culture that encourages engagement, diversity and continuous learning.</p>

Proportion of Women in the Company

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

During 2016, the proportion of women who were directly employed by the Company as a whole was 10%: 171 Full-time, 5 Part-time and 10 Casual, a decrease of 1.0% from 2015. The proportion of women in senior management roles (being roles which directly report to the CEO or CEC) within the Company during 2016 was 8%: Women held 1 of 12 senior management role 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 (Protocol) adopted and approved by the Board in 2012.

The Board

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

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

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

Feedback will be collected by the Chairman, or an external facilitator, and discussed by the Board, with consideration being given as to whether any steps should be taken to improve performance of the Board or its committees.

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

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

Board committees

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

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

Each committee provides feedback to the Board on its own performance, which is collected by the Chairman 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 was conducted each of 2016 (in respect of 2015) and 2017 (in respect of 2016) in accordance with the process disclosed above.

Individual Directors

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

An annual performance review of Non-Executive Directors is conducted by the Chairman for each Non-Executive Director, specifically addressing the performance criteria within the Protocol.

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

A review of individual directors was conducted in each of 2016 (in respect of 2015) and 2017 (in respect of 2016) in accordance with the process disclosed above.

Performance of senior executives

The CEC and the CEO review the performance of senior executives annually against appropriate measures as part of the Company's performance management system for all managers and staff.

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

The performance evaluation for the CEC, CEO and senior executives took place in 2016 in accordance with the process disclosed above and in the Remuneration Report. The results of the performance review are 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.

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 8.

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

Chairman of the Board

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

Board Committees

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

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

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

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

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

Committee	Purpose	Membership
Audit and Risk Management Committee	<p>The committee's objectives are to:</p> <ul style="list-style-type: none"> • help the Board in relation to the reporting of financial information. • advise on the appropriate application and amendment of accounting policies; • make evaluations and recommendations to the shareholders of the Company regarding the external auditor; • recommend to the Board the remuneration of the external auditor for shareholder approval as required in accordance with the Constitution; • provide a link between the Board and the external auditor and management; • ensure that the Board, Directors and management are aware of material risks facing the business; and • ensure the systems in place to identify, monitor and assess risk are appropriate and operating effectively. 	<p>Gregory Fletcher – Chair</p> <p>Yuxiang Wu</p> <p>Geoffrey Raby</p> <p>(minimum of three Non-Executive Directors, a majority of whom are independent)</p>
Health, Safety and Environment Committee	<p>The committee assists the Board to:</p> <ul style="list-style-type: none"> • 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 	<p>Vincent O'Rourke AM –Chair</p> <p>Geoffrey Raby</p> <p>Fuqi Wang</p> <p>(minimum of three directors)</p>

	<ul style="list-style-type: none"> provide necessary focus and guidance on HSE matters across the Company. 	
Nomination and Remuneration Committee	<p>The committee assists the Board of the Company by making recommendations in relation to:</p> <ul style="list-style-type: none"> Board composition and succession planning for the Board; Director remuneration (subject to any shareholder approval that is required in accordance with the Constitution and the ASX Listing Rules) and remuneration arrangements for the Executive Committee and any other person nominated as such by the committee from time to time; the public reporting of remuneration for Directors and the Company's Executive Committee; the performance assessment of the Executive Committee; designing company policy and regulations with regard to corporate governance; and diversity. 	<p>Xiyong Li – Chair</p> <p>Cunliang Lai</p> <p>William Randall</p> <p>(minimum of three Non-Executive Directors)</p>
Strategy and Development Committee	<p>The committee assists the Board in its oversight and review of the Company's strategic initiatives, including:</p> <ul style="list-style-type: none"> merger and acquisition proposals; major capital markets transactions; significant investment opportunities; and proposals to dispose of significant Company assets. 	<p>Baocai Zhang – Chair</p> <p>Yuxiang Wu</p> <p>Fuqi Wang</p> <p>Huaqiao Zhang</p> <p>(minimum of three directors)</p>

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

The number of meetings held by each committee during 2016 and each member's attendance at these meetings is set out in the Directors' Report on page 15.

An Independent Board Committee is established as and when required to manage any related party transactions. The Independent Board Committee was constituted four times in 2016 for the purposes of considering transactions between or involving the Company and its major shareholder, Yanzhou. In each case, the Independent Board Committee comprised at least three independent directors.

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

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

Director independence

The Board comprises 11 directors, of whom 5 hold their positions in an independent non-executive capacity (based on the *independence standard* disclosed below). The Company's 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 Chairman) in light of their interests and relationships. A majority of the Board are not considered independent directors having regard to their affiliation with the Company's major shareholder, Yanzhou, and accordingly the Company does not comply with Recommendation 2.4 of the ASX Recommendation. However, the Board considers that its composition appropriately represents the interests of its shareholders including its major shareholder, Yanzhou, and that the Board has put in place appropriate policies and procedures to guide the Board and senior executives in circumstances where conflicts of interest may arise and in its dealings with Yanzhou, including establishing the Independent Board Committee referred to above.

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

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

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

Independence Standard

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

A director is considered independent if the director:

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

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

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

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. Accordingly, 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 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.

Principle 3: Act ethically and responsibly

Conduct and ethics

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

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

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

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

The key values underpinning the Code of Conduct are:

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

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 current 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 Chairman. The qualifications, skills and experience of each member is disclosed in the Information on directors in the Directors' Report, on page 8.

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

CEO and CFO certifications on financial reports

The CEO and CFO have declared in writing to the Board that in respect of the half year ended 30 June 2016 and the full year ended 31 December 2016, in their opinion, the financial records of the Company have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

External Auditor

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

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

Principle 5: Make timely and balanced disclosure

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

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 CEC, CEO, CFO, Company Secretary, Investor Relations General Manager and Group Counsel.

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

Principle 6: Respect the rights of shareholders

Communications with shareholders

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

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

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

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

Principle 7: Recognise and manage risk

Risk identification and management

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

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

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

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

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

In 2016, the Audit and Risk Management Committee had in place a framework to identify and manage material business risks. This framework includes:

- identification of material business risk by the Executive Committee by reference to a single risk register, approved by the Audit and Risk Management Committee and Board;
- implementation of a risk management framework (that includes a risk management policy, governance structure, procedures), approved by the Audit and Risk Management Committee and Board;
- formal risk identification activities being undertaken at both a functional level and at each of the Company's mine sites;

- designated individuals across the business that have accountability for the implementation of risk management within their areas of responsibility;
- the EGM of Risk Management and Auditing as a central resource available to assist with all risk management responsibilities, and to assist with any training/awareness or other related requirements; and
- adherence to internal procedures and plans for crisis management.

The Audit and Risk Management Committee receives periodic reports on the performance of the Company's risk management framework, as well as on the Company's key risk exposures to satisfy itself that it continues to be sound. Although a review of the risk management framework was not conducted in 2016, a review of the Company's corporate risk register was carried out in 2016 and an update on risk management process was a standing item for each of the Audit and Risk Management Committee meetings in 2016. It is intended that a review of the Company's risk management framework is conducted on an annual basis from 2017.

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

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

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

Risks associated with the Company

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

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.

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

	Economic sustainability risks	Environmental sustainability risks	Social sustainability risks
Operating risks	✓	✓	✓
Injury or accident risks	✓		✓
Funding risks	✓		
Adverse foreign exchange rate movements	✓		
Coal prices and coal demand risk	✓		
Coal production risks	✓		
Regulatory approvals risks	✓		✓
Estimates of Resources and Reserves and geology	✓		
Take or pay liabilities	✓		
Mine closure	✓	✓	✓
Coal supply agreement	✓		

Joint ventures and reliance on third parties	✓		
Title risks	✓		
Overlapping tenement risks	✓		✓
Enforcement and counterparty insolvency risks	✓		
Changes in government policy, regulation or legislation	✓		
Litigation	✓		✓
Exploration and development risks	✓		
Transport and infrastructure	✓		
Environmental risks	✓	✓	✓
Health, safety and hazardous materials risks	✓	✓	✓
Impairment risks	✓		

Operating risks

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

Injury or accident risks

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

Funding risks

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

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

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

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

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.

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 risks

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

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

Regulatory approvals risks

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

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.

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.

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.

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.

Impairment risks

Effective on and from 31 March 2016 ("**Completion Date**"), the Company put in place a new financial arrangement, by executing a Bond Subscription Agreement and other relevant or incidental agreements ("**Watagan Agreements**"). In general, the Company has secured up to US\$950 million in new debt funding via the issue of nine-year secured debt bonds by a newly established subsidiary of the Company, Watagan Mining Company Pty Ltd ("**Watagan**"), to Industrial Bank Co. Ltd, BOCI Asia Financial Products Limited and United NSW Energy ("**UNE**").

In accordance with the terms of the Watagan Agreement, the Company's interests in the New South Wales mining assets of Ashton, Austar and Donaldson have been transferred to Watagan, a majority of directors of which are nominated by UNE. As a consequence, the Company ceased to control Watagan and its subsidiaries from an accounting perspective, and the assets, liabilities and results of Watagan and its subsidiaries will not be incorporated into the Company's consolidated financial statements from the Completion date.

At the end of the term of the Bond Subscription Agreement, which is scheduled for in 2025, (or earlier if control over Watagan is determined to pass back to the Company), the Company would reconsolidate Watagan's results and financial position for the point that control is regained, and this re-acquisition would be treated as a business combination. Additionally, the Bondholders have a put option that allows them to put the issued debt bonds to Yankuang at approximately years three, five, seven and nine of the bond term, or on an event of default after three years. Exercise of this put option would also result in the Company regaining control of Watagan.

As of 31 December 2016, the Company has a loan receivable from Watagan of AUD\$775 million (re-drawable up to AUD\$1.36 billion) which is subject to impairment testing. There is a guarantee provided by Yankuang Group Co.,Ltd (being the ultimate parent entity of the Company) to indemnify the Company for any amounts due and payable under the loan which are not paid by Watagan. However, it is noted that when control over Watagan is regained, Watagan will be subject to business combination accounting that will require the Company to fair value the assets and liabilities being acquired from Watagan at that time and, could result in a deficit to the value of the loan being recognised as a financial loss.

Internal audit function

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

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

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

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

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

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

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

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

Health, Safety and Environment Compliance

The Company has adopted policies to comply with occupational health, safety, environment and other laws. The Board has approved a Health, Safety and Environment Policy which applies across the Company. In addition, each mine site has its own health, safety and environmental policies and procedures to deal with their particular health, safety and environmental issues. The Board has established a Health, Safety and Environment Committee to assist it in overseeing the Company's health, safety and environmental responsibilities. In accordance with its charter, this committee has at least three members. The members of this committee are Vincent O'Rourke (chair of the committee), Geoffrey Raby and Fuqi Wang. 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 16 to 29.

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 28 February 2017.

Yancoal Australia Ltd

Annual Financial Report

For the year ended 31 December 2016

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Yancoal Australia Ltd
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2016

	Notes	31 December 2016 \$M	31 December 2015 \$M
Revenue	B2	1,238.3	1,319.1
Other income	B3	15.6	33.9
Changes in inventories of finished goods and work in progress		(7.4)	2.1
Raw materials and consumables used		(186.9)	(212.7)
Employee benefits expense	B4	(188.3)	(229.3)
Depreciation and amortisation expense		(132.6)	(200.4)
Transportation expense		(265.5)	(260.7)
Contractual services and plant hire expense		(128.0)	(217.6)
Government royalties expense		(70.6)	(76.6)
Changes in deferred mining costs		-	(7.3)
Coal purchases		(209.5)	(158.4)
Other operating expenses	B5	(162.7)	(147.0)
Finance costs	B5	(209.1)	(161.7)
Share of loss of equity-accounted investees, net of tax	E1	(5.1)	(37.2)
Loss before income tax		(311.8)	(353.8)
Income tax benefit	B6	84.7	62.6
Loss after income tax		(227.1)	(291.2)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges:			
Fair value losses	D6	(42.9)	(474.9)
Fair value losses transferred to profit and loss	D6	133.3	22.3
Deferred income tax (expense)/benefit	D6	(27.1)	133.9
Other comprehensive income/(expense), net of tax		63.3	(318.7)
Total comprehensive expense		(163.8)	(609.9)
Total comprehensive expense for the year attributable to owners of Yancoal Australia Ltd arises from:			
Continuing operations		(163.8)	(609.9)
		\$	\$
Loss per share attributable to the ordinary equity holders of the Company:			
Basic and diluted loss per share	B7	(0.23)	(0.29)

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

Yancoal Australia Ltd
Consolidated balance sheet
As at 31 December 2016

	Notes	31 December 2016 \$M	31 December 2015 \$M
ASSETS			
Current assets			
Cash and cash equivalents	C6	190.3	154.4
Trade and other receivables	C7	435.7	225.2
Royalty receivable	C9	31.2	19.7
Inventories	C8	74.6	76.2
Other current assets		7.0	11.7
Assets classified as held for sale		-	1,637.3
Total current assets		738.8	2,124.5
Non-current assets			
Trade and other receivables	C7	406.9	378.9
Royalty receivable	C9	167.7	185.2
Investments accounted for using the equity method	E1	4.7	7.7
Property, plant and equipment	C1	1,525.6	1,250.2
Mining tenements	C2	2,127.6	2,084.5
Deferred tax assets	B6	1,339.1	1,166.2
Intangible assets	C5	70.4	72.5
Exploration and evaluation assets	C4	498.2	590.5
Other non-current assets		5.8	9.5
Interest bearing loan to associate	D1	775.0	-
Total non-current assets		6,921.0	5,745.2
Total assets		7,659.8	7,869.7
LIABILITIES			
Current liabilities			
Trade and other payables		467.1	292.3
Interest-bearing liabilities	D2	20.2	10.9
Derivative financial instruments	D3	0.6	1.0
Provisions	C10	10.0	12.4
Liabilities directly associated with assets classified as held for sale		-	321.7
Total current liabilities		497.9	638.3
Non-current liabilities			
Interest-bearing liabilities	D2	4,930.7	4,720.6
Deferred tax liabilities	B6	762.2	692.1
Provisions	C10	117.2	130.4
Total non-current liabilities		5,810.1	5,543.1
Total liabilities		6,308.0	6,181.4
Net assets		1,351.8	1,688.3
EQUITY			
Contributed equity	D4	3,103.8	3,103.0
Reserves	D6	(816.6)	(879.9)
Accumulated losses		(935.4)	(534.8)
Capital and reserves attributable to owners of Yancoal Australia Ltd		1,351.8	1,688.3
Total equity		1,351.8	1,688.3

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

Yancoal Australia Ltd
Consolidated statement of changes in equity
For the year ended 31 December 2016

	Attributable to owners of Yancoal Australia Ltd			Total equity \$M
	Contributed equity \$M	Hedge reserves \$M	Accumulated losses \$M	
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 income/(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
Balance at 1 January 2016	3,103.0	(879.9)	(534.8)	1,688.3
Loss after income tax	-	-	(227.1)	(227.1)
Other comprehensive income/(expense)	-	63.3	-	63.3
Total comprehensive expense	-	63.3	(227.1)	(163.8)
Transactions with owners in their capacity as owners:				
Transaction cost of subordinated capital notes	0.8	-	-	0.8
Distributions to subordinated capital notes' holders	-	-	(173.5)	(173.5)
	0.8	-	(173.5)	(172.7)
Balance at 31 December 2016	3,103.8	(816.6)	(935.4)	1,351.8

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

Yancoal Australia Ltd
Consolidated statement of cash flows
For the year ended 31 December 2016

	31 December 2016 \$M	31 December 2015 \$M
Cash flows from operating activities		
Receipts from customers	1,141.0	1,329.9
Payments to suppliers and employees	(1,063.1)	(1,301.4)
Interest paid	(180.5)	(126.3)
Interest received	85.9	7.2
Income taxes paid	-	(16.9)
Net cash outflow from operating activities	F3 (16.7)	(107.5)
Cash flows from investing activities		
Payments for property, plant and equipment	(352.6)	(290.0)
Payments for mining tenements	(0.1)	-
Payments for capitalised exploration and evaluation activities	(0.3)	(2.1)
Proceeds from sale of property, plant and equipment	0.8	-
Reduction of cash balance from loss of control of subsidiaries	(10.6)	-
Payment for acquisition of subsidiary (net of cash acquired)	-	(23.3)
Advances to jointly controlled entities	(39.8)	-
Advances to related entities	(35.0)	0.1
Payment of stamp duty	(7.2)	-
Cash transferred (from) / to restricted accounts	(28.4)	1.4
Net cash outflow from investing activities	(473.2)	(313.9)
Cash flows from financing activities		
Repayment of borrowings from associate	623.4	-
Advance of borrowings to associate	(35.0)	-
Proceeds from interest-bearing liabilities - related entities	250.6	401.7
Repayment of interest bearing liabilities	(197.8)	-
Payment of transaction cost of subordinated capital notes	-	(13.1)
Payment of subordinated capital notes distribution	(99.8)	(12.4)
Payment of finance lease liabilities	(16.2)	(10.7)
Net cash inflow from financing activities	525.2	365.5
Net decrease in cash and cash equivalents	35.3	(55.9)
Cash and cash equivalents at the beginning of the financial year	159.0	203.6
Effects of exchange rate changes on cash and cash equivalents	(4.0)	11.3
Transfer to assets held for sale	-	(4.6)
Cash and cash equivalents at the end of the year	C6 190.3	154.4

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

A Basis of Preparation

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

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

The financial statements were authorised for issue in accordance with a resolution of the Directors on 28 February 2017.

(i) Compliance with IFRS

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

(ii) Subsidiaries

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

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

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

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

(iii) Significant accounting policies

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

(iv) Historical cost convention

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

(v) Rounding of amounts

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

(vi) New and amended standards adopted by the Group

In the prior year, the Company elected to early adopt the 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 Amendments to Australian Accounting Standards - Disclosure Initiative.

The Group has not elected to apply any other pronouncements before their operative date in the annual reporting period beginning 1 January 2016.

A Basis of Preparation (continued)

(vi) New and amended standards adopted by the Group (continued)

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 2016. 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 2016 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 and provisions C10.

(ix) Going concern

For the year ended 31 December 2016, the Group had a loss after income tax of \$227.1 million (31 December 2015: loss after income tax of \$291.2 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 2016, the Group has a cash balance of \$190.3 million.
- (ii) At 31 December 2016, the Group has surplus net current assets of \$240.9 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\$681.5 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\$136.0 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.

B Performance

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

B Performance (continued)

B1 Segment information

Accounting Policy

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

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

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

On 31 March 2016 Yancoal Australia Ltd transferred control of Watagan Mining Company Pty Ltd ("Watagan") (refer to Note E1 for further details). Watagan holds the ownership interests in the Astar, Ashton and Donaldson mines located in NSW. The amount disclosed for revenue in 2016 below includes the operational results of the three mines for the period 1 January 2016 to 31 March 2016. 2015 includes a full 12 months of operational results for the three mines.

(a) Segment information

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

31 December 2016	Coal Mining			Total \$M
	NSW \$M	QLD \$M	Corporate \$M	
Total segment revenue*	873.9	325.6	(133.3)	1,066.2
Add: fair value losses recycled from hedge reserve	-	-	133.3	133.3
Revenue from external customers	873.9	325.6	-	1,199.5
Operating EBIT	84.6	8.8	(41.1)	52.3
Material income or expense items				
Non-cash items				
Remeasurement of royalty receivable	-	-	(6.4)	(6.4)
Stamp duty expense	-	-	(12.2)	(12.2)
Depreciation and amortisation expense	(93.5)	(31.1)	(8.0)	(132.6)
	(93.5)	(31.1)	(26.6)	(151.2)
Cash items				
	-	-	-	-
Total capital expenditure	369.9	3.4	9.8	383.1
Segment assets	491.4	127.1	5,697.5	6,316.0
Deferred tax assets	38.7	24.8	1,275.6	1,339.1
Investment in joint venture			4.7	4.7
Total assets	530.1	151.9	6,977.8	7,659.8

B Performance (continued)

B1 Segment information (continued)

(a) Segment information (continued)

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

31 December 2015	Coal Mining			Total \$M
	NSW \$M	QLD \$M	Corporate \$M	
Total segment revenue*	975.7	289.5	-	1,265.2
Add: fair value losses recycled from hedge reserve	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.

There was no impairment charge or other significant non-cash items recognised during the year ended 31 December 2016 and 31 December 2015 other than those disclosed above.

(b) Other segment information

(i) Segment revenue

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

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

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

B Performance (continued)

B1 Segment information (continued)

(b) Other segment information (continued)

(i) Segment revenue (continued)

	31 December 2016 \$M	31 December 2015 \$M
Australia (Yancoal's country of domicile)	68.5	27.9
Singapore	261.5	315.1
South Korea	296.3	426.1
China	178.9	106.9
Japan	143.3	152.8
Taiwan	93.0	68.1
All other foreign countries	158.0	190.6
Total revenue from external customers	1,199.5	1,287.5

Revenues from the top five external customers were \$480 million (2015: \$630 million) which in aggregate represent approximately 40% (2015: 50%) of the Group's revenues from the sale of coal. These revenues were attributable to the NSW and Queensland coal mining segments.

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

	31 December 2016 \$M	31 December 2015 \$M
Total segment revenue	1,066.2	1,265.2
Interest income	124.6	50.4
Mining services fees	38.4	-
Other revenue	9.1	3.5
Total revenue from continuing operations (refer to Note B2)	1,238.3	1,319.1

(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.

B Performance (continued)

B1 Segment information (continued)

(b) Other segment information (continued)

(ii) Operating EBIT (continued)

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

	31 December 2016 \$M	31 December 2015 \$M
Operating EBIT	52.3	(200.8)
Finance costs	(209.1)	(161.7)
Remeasurement of royalty receivable	(6.4)	2.4
Fair value losses recycled from hedge reserve - USD loans	(133.3)	-
Stamp duty expensed	(12.2)	-
Transaction costs	(3.1)	-
Gain on acquisition of interest in joint operation and subsidiaries	-	6.3
Loss before income tax from continuing operations	(311.8)	(353.8)

(iii) Segment capitalised expenditure

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

All segment assets are located in Australia.

(iv) Segment liabilities

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

B Performance (continued)

B2 Revenue

Accounting Policies

Revenue is 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) Services

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

(iv) Other

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

	31 December 2016	31 December 2015
	\$M	\$M
From continuing operations		
<i>Sales revenue</i>		
Sale of coal	1,199.5	1,287.5
Fair value losses recycled from hedge reserve*	(133.3)	(22.3)
	1,066.2	1,265.2
<i>Other revenue</i>		
Interest income	124.6	50.4
Mining services fees	38.4	-
Other	9.1	3.5
	172.1	53.9
	1,238.3	1,319.1

* In 2016, there were fair value losses amounting to \$133.3 million on US dollar denominated interest-bearing liabilities recycled from the hedge reserve. In 2015 the loss of \$22.3 million was incurred on foreign exchange rate contracts recycled from the hedge reserve. In 2015 there was no fair value gain / losses on US dollar denominated interest-bearing liabilities recycled from the hedge reserve.

B Performance (continued)

B3 Other income

Accounting Policy

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

	31 December 2016 \$M	31 December 2015 \$M
Gain on remeasurement of royalty receivable	-	2.4
Net gain on foreign exchange*	12.3	14.6
Gain on acquisition of interest in joint operation and subsidiaries	-	6.3
Release of R&D provision	-	4.1
Sundry income	2.5	6.5
Operating Lease Income	0.8	-
	15.6	33.9

* There is no impact on the conversion of US dollar denominated interest-bearing liabilities (2015: nil).

B4 Employee benefits

Accounting Policies

(i) Employee benefits expenses

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

(ii) Superannuation

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

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

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

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

B Performance (continued)

B4 Employee benefits (continued)

(a) Employee benefits expense

	31 December 2016 \$M	31 December 2015 \$M
Defined contribution superannuation expense	14.1	18.8
Other employee benefits expenses	174.2	210.5
Total employee benefits expenses from continuing operations	<u>188.3</u>	<u>229.3</u>

During 2016 \$26.0 million of employee benefits were capitalised (2015: \$45.4 million)

(b) Key management personnel compensation

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 31 December 2016.

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

	31 December 2016 \$	31 December 2015 \$
Short-term employee benefits	4,805,919	4,531,221
Post-employment benefits	142,474	114,886
Other long-term benefits	1,865,017	1,787,125
	<u>6,813,410</u>	<u>6,433,232</u>

B5 Expenses

	31 December 2016 \$M	31 December 2015 \$M
(a) Finance costs		
Finance lease charges	3.6	2.3
Unwinding of discount on provisions and deferred payables	5.3	6.0
Other interest expenses	214.8	160.1
Interest expenses capitalised	(14.6)	(6.7)
Total finance costs from continuing operations	<u>209.1</u>	<u>161.7</u>
(b) Other operating expenses		
Net loss on disposal of property, plant and equipment	7.0	2.5
Rental expense relating to operating leases	2.5	2.1
Re-measurement of royalty receivable	6.4	-
Insurance	3.1	5.6
Bank fees and other charges	114.1	116.4
Stamp duty	12.2	-
Duties and other levies	5.6	10.0
Travel and accommodation	8.1	9.5
Other operating expenses	3.7	0.9
Total other operating expenses from continuing operations	<u>162.7</u>	<u>147.0</u>

B Performance (continued)

B6 Taxation

Accounting Policy

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

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

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

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

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

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

Tax consolidation legislation

Yancoal Australia Ltd and its wholly owned Australian controlled entities have implemented the tax consolidation legislation for income tax purposes. The accounting policy in relation to this legislation is set out in Note E3.

B Performance (continued)

B6 Taxation (continued)

Critical accounting estimates and judgements

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. Deferred tax assets, including those arising from unutilised tax losses, require the Group to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Judgement is also required in respect of the application of existing tax laws. 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 2016 \$M	31 December 2015 \$M
Income tax benefit	73.0	62.6
Income tax benefit true up	11.7	-
	<u>84.7</u>	<u>62.6</u>
Net tax benefit is attributable to:		
Continuing operations	<u>84.7</u>	<u>62.6</u>

(ii) Income tax benefit

Deferred tax benefit	<u>84.7</u>	62.6
Deferred tax benefit included in income tax benefit comprises:		
Increase in deferred tax assets (refer to Note B6(b)(i))	156.9	213.4
Decrease in deferred tax liabilities (refer to Note B6(c)(i))	(70.1)	(150.8)
Movements in other including assets classified as held for sale	(2.1)	-
	<u>84.7</u>	<u>62.6</u>

B Performance (continued)

B6 Taxation (continued)

(a) Income tax (expense) / benefit (continued)

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

	31 December 2016 \$M	31 December 2015 \$M
Loss from continuing operations before tax	(311.8)	(353.8)
Tax at the Australian tax rate of 30% (2015 - 30%)	93.6	106.1
Tax effect of amounts which are not deductible / taxable in calculating taxable income:		
Stamp duty provision expensed	(3.7)	-
Share of profit / (loss) of equity-accounted investees not deductible	(1.5)	(11.2)
Gain on acquisition of subsidiaries	-	3.4
Plant and equipment	7.9	(4.3)
Under / over provision in prior years	11.7	(19.3)
Denial of debt deductions	(18.7)	(15.8)
Other	(4.6)	3.7
Income tax benefit	<u>84.7</u>	<u>62.6</u>

(iv) Amounts recognised directly in equity

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

Cash flow hedges	27.1	(133.9)
Subordinated Capital Note transaction costs	(0.8)	0.3
	<u>26.3</u>	<u>(133.6)</u>

B Performance (continued)

B6 Taxation (continued)

(b) Deferred tax assets

(i) Deferred tax assets

	31 December 2016 \$M	31 December 2015 \$M
Deferred tax assets from income tax	1,339.1	1,166.2

(ii) Income tax

Movements	Tax losses and offsets \$M	Provisions \$M	Trade and other payables \$M	Finance lease liabilities \$M	Cash flow hedges \$M	Other \$M	Total \$M
At 1 January 2015	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
At beginning of year	834.2	43.3	10.2	9.3	251.2	18.0	1,166.2
Under/over provision in prior year							
- to profit or loss	(13.7)	-	0.2	-	23.8	(0.3)	10.0
- to Watagan Group	(12.1)	-	-	-	-	-	(12.1)
(Charged)/credited							
- to profit or loss	149.4	(4.5)	4.6	11.0	-	(13.6)	146.9
- directly to equity	(40.0)	-	-	-	12.9	-	(27.1)
- directly to other	-	-	-	-	-	0.9	0.9
- tax loss recorded on behalf of Watagan Group	55.1	-	-	-	-	-	55.1
Re-recognised from Assets classified as held for sale	-	(0.8)	-	-	-	-	(0.8)
At 31 December 2016	972.9	38.0	15.0	20.3	287.9	5.0	1,339.1

The Group's tax consolidated group includes Watagan Mining Company Pty Ltd and its controlled subsidiaries, refer to E1b(i) for further details. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses / credits can be utilised. The Group has unrecognised capital tax losses (tax effected) of \$1.7 million (2015: capital tax losses \$1.9 million). There is no expiry date on these tax losses.

B Performance (continued)

B6 Taxation (continued)

(c) Deferred tax liabilities

(i) Deferred tax liabilities

	31 December 2016 \$M	31 December 2015 \$M
Deferred tax liabilities from income tax	762.2	692.1

(ii) Income tax

	Property, plant and Intangible equipment 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 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
At 1 January 2016	61.6	2.1	8.1	547.0	-	56.1	17.2	692.1
Under / over provision in prior year	(1.7)	-	-	-	-	-	-	(1.7)
Charged/(credited)								
- to profit or loss	19.8	0.2	0.3	3.7	-	40.7	7.1	71.8
At 31 December 2016	79.7	2.3	8.4	550.7	-	96.8	24.3	762.2

B Performance (continued)

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 2016	31 December 2015
	\$	\$
From continuing operations	(0.23)	(0.29)
Total basic and diluted loss per share	(0.23)	(0.29)

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

	31 December 2016	31 December 2015
	\$M	\$M
<i>Basic and diluted loss per share</i>		
Loss used in calculating diluted loss per share:		
From continuing operations	(227.1)	(291.2)
	(227.1)	(291.2)

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

	31 December 2016	31 December 2015
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share (refer to Note D4)	994,216,823	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	-	-
Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted loss per share	994,216,823	994,216,659

B Performance (continued)

B7 Loss per share (continued)

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. On 31 December 2016 a noteholder converted 60 SCN's into 60,000 ordinary shares of the Company. At 31 December 2016 there are 18,005,042 SCNs on issue. Each note is convertible into 1,000 ordinary shares at the option of the holder up to 31 December 2044.

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.

C Operating assets and liabilities (continued)

C1 Property, plant and equipment (continued)

Open cut

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

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

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

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

Depreciation and amortisation

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

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

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

The estimated useful lives are as follows:

- Buildings 10 - 25 years
- Mine development 10 - 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.

C Operating assets and liabilities (continued)

C1 Property, plant and equipment (continued)

	Assets under construction \$M	Freehold land & buildings \$M	Mine development \$M	Plant and equipment \$M	Leased plant and equipment \$M	Leasehold land \$M	Total \$M
Year ended 31 December 2015							
Opening net book amount	302.5	247.3	476.1	835.6	45.3	0.1	1,906.9
Transfer - assets under construction	(306.4)	8.4	186.2	109.9	-	-	(1.9)
Transfer - 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	374.5	766.1	53.0	0.1	1,610.6
Accumulated depreciation	-	(10.5)	(71.3)	(264.0)	(14.6)	-	(360.4)
Net book amount	234.9	171.5	303.2	502.1	38.4	0.1	1,250.2
Year ended 31 December 2016							
Opening net book amount	234.9	171.5	303.2	502.1	38.4	0.1	1,250.2
Transfer - assets under construction	(226.7)	0.7	91.5	125.6	-	-	(8.9)
Additions	316.1	-	13.9	2.6	50.1	-	382.7
Other disposals	-	(0.1)	-	(15.0)	-	-	(15.1)
Depreciation charge	-	(2.4)	(27.6)	(46.6)	(6.7)	-	(83.3)
Closing net book amount	324.3	169.7	381.0	568.7	81.8	0.1	1,525.6
At 31 December 2016							
Cost	324.3	182.1	479.9	868.8	103.1	0.1	1,958.3
Accumulated depreciation	-	(12.4)	(98.9)	(300.1)	(21.3)	-	(432.7)
Net book amount	324.3	169.7	381.0	568.7	81.8	0.1	1,525.6

During the year ended 31 December 2016 \$10.9 million of depreciation and amortisation was capitalised (2015 \$14.3 million) and \$14.6 million of interest was capitalised (2015 \$6.7 million).

(a) Non-current assets pledged as security

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

C Operating assets and liabilities (continued)

C2 Mining tenements

Accounting Policy

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

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

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

	31 December 2016 \$M	31 December 2015 \$M
Opening net book amount	2,084.5	2,466.2
Acquisition through business combination	-	25.1
Transfers from exploration and evaluation assets	100.9	-
Amortisation for the period	(57.8)	(64.3)
Transfer to assets classified as held for sale	-	(342.5)
Closing net book amount	<u>2,127.6</u>	<u>2,084.5</u>

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.

C Operating assets and liabilities (continued)

C2 Mining tenements (continued)

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.

C3 Impairment of assets

Accounting policies

(i) Long term assets

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

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

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

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

(ii) Other financial assets

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

C Operating assets and liabilities (continued)

C3 Impairment of assets (continued)

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

Critical accounting estimates and judgements

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

(a) CGU assessment

The Group operates on a regional basis within NSW and as such the NSW mines are considered to be one CGU. The NSW regional CGU comprises the open cut mines Moolarben and Stratford/Duralie. Yarrabee and Middlemount are considered separate CGU's due to location and ownership structure.

(b) Assessment of fair value

Each CGU's fair value less costs of disposal has been determined using a discounted cash flow model over the expected life 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	<p>The Group's cash flow forecasts are based on estimates of future coal prices, which assume benchmark prices will revert to the group's assessment of the long term real coal prices of USD 66 – USD 100 per tonne (2015: USD 55 – USD 109 per tonne) for thermal and USD 104 – USD 165 per tonne (2015: USD 91 – USD 166 per tonne) for metallurgical coal.</p> <p>The Group receives long term forecast coal price data from multiple external sources when determining its benchmark coal price forecasts and then makes adjustments for specific coal qualities.</p> <p>For both thermal and metallurgical coal the Group's forecast coal price is within the range of external price forecasts.</p>
Foreign exchange rates	<p>The long term AUD/USD forecast exchange rate of \$0.73 (2015: \$0.73) is based on external sources. The year-end AUD/USD exchange rate was \$0.72 per the Reserve Bank of Australia.</p>

C Operating assets and liabilities (continued)

C3 Impairment of assets (continued)

(b) Assessment of fair value (continued)

Production and capital costs	<p>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.</p> <p>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.</p>
Coal reserves and resources	<p>See discussion at Note C2 Mining tenements for how the coal reserves and resources are determined.</p>
Discount rate	<p>The Group has applied a post-tax discount rate of 10.5% (2015: 10.5%) to discount the forecast future attributable post-tax cash flows.</p> <p>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.</p> <p>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.</p>

Based on the above assumptions at 31 December 2016 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 2016 are \$104.5 million for Moolarben and \$73.8 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 recoverable amount would exceed book value for all CGUs. If the AUD/USD long term forecast exchange rate was \$0.80 the recoverable amount would exceed book value for all CGUs.

Goodwill

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

C Operating assets and liabilities (continued)

C4 Exploration and evaluation assets

Accounting Policy

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

Exploration and evaluation assets acquired in a business combination are recognised at their fair value at the acquisition date. The carrying amount of exploration and evaluation assets are assessed for impairment when facts or circumstances suggest the carrying amount of the assets may exceed their recoverable amount. A regular review is undertaken for each area of interest to determine the appropriateness of continuing to carry forward costs in relation to each area of interest. Accumulated costs in relation to an abandoned area are written off in full in the period in which the decision to abandon the area is made.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, the exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining tenements.

Critical accounting estimates and judgements

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If after expenditure is capitalised information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the period when the new information becomes available.

	31 December 2016 \$M	31 December 2015 \$M
Opening net book amount	590.5	896.0
Remeasurement through business combination	-	3.4
Other additions	0.4	2.2
Transfers to mining tenements	(100.9)	-
Transfers from assets under construction	8.2	-
Transfer to assets classified as held for sale	-	(311.1)
Closing net book amount	498.2	590.5

C Operating assets and liabilities (continued)

C5 Intangibles

Accounting Policies

(i) Goodwill

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

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

See Note C3 for further details on impairment of assets.

(ii) Computer software

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

(iii) 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 licenses \$M	Total \$M
At 1 January 2015				
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

C Operating assets and liabilities (continued)

C5 Intangibles (continued)

Year ended 31 December 2016

Opening net book amount	60.3	12.2	-	72.5
Transfers - assets under construction	-	0.7	-	0.7
Other disposals	-	(0.2)	-	(0.2)
Amortisation charge	-	(2.6)	-	(2.6)
Closing net book amount	60.3	10.1	-	70.4

At 31 December 2016

Cost	60.3	24.6	-	84.9
Accumulated amortisation	-	(14.5)	-	(14.5)
Net book amount	60.3	10.1	-	70.4

The goodwill at 31 December 2016 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 2016. The CGU for which goodwill was allocated was not subject to an impairment charge as the recoverable amount is greater than the carrying value for this CGU.

C6 Cash and cash equivalents

Accounting Policy

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

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

	31 December 2016 \$M	31 December 2015 \$M
Cash at bank and in hand	190.3	89.4
Deposits at call	-	69.6
	190.3	159.0
Transfer to assets classified as held for sale	-	4.6
	190.3	154.4

(a) Risk exposure

The Group's exposure to interest rate risk and credit risk is discussed in Note D8. The maximum exposure to credit risk on the cash and cash equivalents balance at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

C7 Trade and other receivables

Accounting Policy

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. After initial recognition, trade and other receivables are carried at amortised cost using the effective interest method.

C Operating assets and liabilities (continued)

C7 Trade and other receivables (continued)

	31 December 2016 \$M	31 December 2015 \$M
Current		
Trade receivables	301.1	157.2
Advances to controlled entities	2.7	2.3
Other receivables (i)	79.0	42.0
Cash - restricted (refer to Note D2(b))	31.7	2.5
Promissory note receivable (ii)	21.2	21.2
	<u>435.7</u>	<u>225.2</u>
Non-current		
Receivables from joint venture (refer to Note E2(c))	346.8	331.1
Receivables from other entities (iv)	59.9	46.8
Cash - restricted	0.2	1.0
	<u>406.9</u>	<u>378.9</u>

- (i) Other receivables includes a stamp duty refund receivable of \$9.2 million (2015: \$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 2016 this loan was further extended on an interest free basis for two months and has been revalued using the effective interest rate method to \$346.8 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 \$28.4 million (2015: \$15.3 million) and Gladstone Long Term Securities ('GiLTS') of \$31.5 million (2015: \$31.5 million).

(a) Past due but not impaired

As at 31 December 2016, there were no trade receivables that were past due (2015: 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 the Middlemount receivable as detailed in (iii) above and \$5.8 million from WICET) do not contain impaired assets and are not past due. It is expected that these amounts will be received when due.

(b) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note D8.

(c) Fair value and credit risk

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

C Operating assets and liabilities (continued)

C7 Trade and other receivables (continued)

(c) Fair value and credit risk (continued)

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note D8 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

C8 Inventories

Accounting Policy

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

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

	31 December 2016 \$M	31 December 2015 \$M
Coal - at lower of cost or net realisable value	46.6	49.2
Tyres and spares - at cost	26.7	26.0
Fuel - at cost	1.3	1.0
	74.6	76.2

(a) Inventory expense

Write downs of inventories to net realisable value recognised as a provision at 31 December 2016 amounted to \$0.6 million (2015: \$12.1 million). The movement in the provision has been included in "Changes in inventories of finished goods and work in progress" in the Consolidated statement of profit or loss and other comprehensive income.

C9 Royalty receivable

Accounting Policy

The royalty receivable is revalued at each reporting period based on expected future cash flows that are dependent on sales volumes, price changes and fluctuations in foreign exchange rates. Gains or losses arising from changes in the fair value of the royalty receivable is recognised in profit or loss. The cash receipts will be recorded against the royalty receivable which will be decreased over time. Since the contract is long term, unwinding of the discount (to reflect the time value of money) for the asset will be recognised under interest income.

The royalty receivable is measured based on management's expectations of the future cash flows with the re-measurement recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income at each reporting date.

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

C Operating assets and liabilities (continued)

C9 Royalty receivable (continued)

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 2016 \$M	31 December 2015 \$M
Opening balance	204.9	199.2
Cash received / receivable	(20.5)	(17.9)
Unwinding of the discount	20.9	21.2
Re-measurement of royalty receivable	(6.4)	2.4
	198.9	204.9
Split between:		
Current	31.2	19.7
Non-current	167.7	185.2
	198.9	204.9

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.

C Operating assets and liabilities (continued)

C10 Provisions (continued)

2016	Employee benefits \$M	Rehab- ilitation \$M	Take or pay \$M	Other provisions \$M	Total \$M
Opening net book amount	0.8	85.1	50.7	6.2	142.8
Charged / (credited) to profit or loss					
- unwinding of discount	-	2.2	3.1	-	5.3
- release of the provision	-	-	(12.5)	(1.1)	(13.6)
Re-measurement of provisions	0.3	(4.4)	-	(0.4)	(4.5)
Transfer to Watagan Mining Company Pty Ltd	-	-	(2.8)	-	(2.8)
Closing net book amount	1.1	82.9	38.5	4.7	127.2
Split between:					
Current	1.0	-	7.7	1.3	10.0
Non-Current	0.1	82.9	30.8	3.4	117.2
Total	1.1	82.9	38.5	4.7	127.2

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	<p>Mining lease agreements and exploration permits impose obligations on the Group to rehabilitate areas where mining activity has taken place. Rehabilitation of these areas is ongoing and in some cases will continue until 2041. The provision for rehabilitation costs has been calculation based on the present value of the future costs expected to be incurred in restoring affected mining areas, assuming current technologies.</p> <p>Key estimate and judgement:</p> <p>The rehabilitation provision has been created based on managements' internal estimates and assumptions relating to the current economic environment, which management believes is a reasonable basis upon which to estimate the future liability.</p> <p>These estimates are reviewed regularly to take into account any material changes to the assumptions, however actual rehabilitation costs will ultimately depend upon the future market prices for the necessary decommissioning works and the timing of when the rehabilitation costs are incurred. Timing is dependent upon when the mines ceases to produce at economically viable rates, which in turn, will depend upon future coal prices, which are inherently uncertain.</p>
Take or pay	<p>In acquiring part of a business or operation, an assessment is made on the fair value of the assets and liabilities under AASB 3 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.</p> <p>Key estimate and judgement:</p> <p>The provision is recognised and estimated based on management's assessment of contracted port capacity versus forecast usage. This involves making assumptions about the probability, amount and timing of an outflow of resources embodying economic benefits.</p>

C Operating assets and liabilities (continued)

C10 Provisions (continued)

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.
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D Capital Structure and Financing

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

D1 Interest-bearing loan to associate

Accounting Policy

Financial assets classified as loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

	31 December 2016 \$M
Opening balance	-
Loan recognised on deconsolidation	1,363.4
Repayments	(623.4)
Drawdowns	35.0
Closing balance	775.0

On 31 March 2016 the Group transferred its interest in three of its 100% owned NSW coal mining operations, being the Austar, Ashton and Donaldson coal mines, to Watagan Mining Company Pty Limited ("Watagan") for a purchase price of \$1,363.4 million. The purchase price was funded by way of a \$1,363.4 million loan from Yancoal Australia Ltd to Watagan bearing interest of BBSY plus 7.06% with a maturity date of 1 April 2025. The outstanding interest and principal of this loan is guaranteed by Yankuang Group Co. Ltd, the Group's ultimate parent entity. Watagan can make prepayments of the outstanding loan balance with any such prepayment capable of redraw in the future.

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities

Accounting Policies

(i) Interest bearing liabilities

Interest-bearing liabilities (excluding financial guarantees) are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method. US dollar interest bearing loans are designated as a hedge instrument in a cash flow hedge (refer to note 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 2016 \$M	31 December 2015 \$M
Current		
Secured bank loans	-	7.2
Secured lease liabilities (refer to Note F1(b))	<u>20.2</u>	<u>3.7</u>
	20.2	10.9
Non-current		
Secured bank loans	3,593.1	3,750.8
Secured lease liabilities (refer to Note F1(b))	47.4	27.1
Unsecured loans from related parties	<u>1,290.2</u>	<u>942.7</u>
	4,930.7	4,720.6
Total interest-bearing liabilities	<u>4,950.9</u>	<u>4,731.5</u>

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities (continued)

(a) Secured bank loans

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

	Facility \$M	31 December 2016		31 December 2015	
		Facility AUD \$M	Utilised AUD \$M	Facility AUD \$M	Utilised AUD \$M
Secured bank loans					
Syndicated facility (i)	US 2,600	3,593.1	3,593.1	3,558.7	3,558.7
Bi-lateral facility (i)	US 140	-	-	191.6	191.6
Chattel mortgage (ii)	US 21.7	-	-	29.7	7.7
Working capital facility (iii)	AU 50	-	-	50.0	-
		<u>3,593.1</u>	<u>3,593.1</u>	<u>3,830.0</u>	<u>3,758.0</u>

(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. On 31 December 2016 the Bi-lateral facility of US\$140 million was repaid in full and restructured to a bank guarantee facility with the same limit.

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

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 0.80; and
- (b) The interest cover ratio will not be less than 1.15 for the twelve month period ended on 30 June 2017; and thereafter
- (c) The consolidated net worth of the Group is not less than AUD1,600 million.

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

The interest cover ratio financial covenant for the twelve month period ended on 31 December 2016 has not been tested as the latest amendment to the facility deferred testing until 30 June 2017.

The Syndicated Facility include the following minimum balance requirements to be satisfied daily and at each end of month:

- (a) The Company is to maintain in the Lender Accounts an aggregate daily average balance of not less than AUD25 million, this is tested at the end of each month, and;
- (b) The Company is to maintain in the Lender Accounts an aggregate end of month balance of not less than AUD50 million.

There was no breach of covenants at 31 December 2016.

(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. During the year the outstanding balance was repaid and the facility was cancelled.

Security in the form of a bank guarantee issued by Westpac Banking Corporation and eleven trucks was also released.

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities (continued)

(a) Secured bank loans (continued)

(iii) Working Capital Facility

During 2015 a working capital facility was taken out to fund working capital and capital expenditure. The facility was for AUD50 million. In March 2016 this facility was repaid in full and the facility was terminated.

Security was 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	92.5	91.9	\$1.2 million 100% cash deposit provided by Yancoal Resources Limited, and \$91.3 million is secured by Yarrabee and Moolarben mine assets with carrying value of \$3,024 million.
Bank of China	268.5	228.1	\$47.0 million is supported by Letter of Comfort from Yanzhou, US\$140 million (AU\$193.5 million) is secured by Yanzhou corporate guarantees, and \$28.0 million is secured by 100% AUD cash collateral from Yancoal Australia Ltd.
ICBC	125.0	121.3	\$2.5 million is secured by cash (10% of the guaranteed amount, and \$100 million is supported by Yanzhou Corporate Guarantee
Total	486.0	441.3	

The CBA Guarantee Facility includes the following financial covenants based on consolidated results of Yancoal Resources Ltd to be tested half-yearly:

- (a) The interest cover ratio will not be less than 5.0,
- (b) The finance debt to EBITDA ratio is not less than 3.0; and
- (c) The net tangible assets is not less than AU\$600 million.

There was no breach of covenants for CBA at 31 December 2016. For Bank of China (apart from US\$140 million which is the same as the Syndicated Facility) and ICBC there are no covenants.

(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 USD190.6 million (AUD261.1 million) was drawn down. In total USD681.5 million (AUD941.9 million) was drawn down as at 31 December 2016 (31 December 2015: USD499.5 million (AUD683.7 million)).

D Capital Structure and Financing (continued)

D2 Interest-bearing liabilities (continued)

(c) Unsecured loans from related parties (continued)

- Facility 2: USD807 million - the purpose of the facility is to fund the coupon payable on subordinated capital notes. During the year USD62.8 million (AUD88.5 million) was drawn down. In total USD136.0 million (AUD188.0 million) was drawn down as at 31 December 2016 (31 December 2015: USD73.2 million (AUD100.2 million)).

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

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 (AUD160.3 million) which remains outstanding as at 31 December 2016.

D3 Derivatives

Accounting Policy

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 2016	31 December 2015
	\$M	\$M
Current liabilities		
Forward foreign exchange contracts payable (i)	(0.6)	(1.0)
Total current derivative financial instrument liabilities	(0.6)	(1.0)

(i) As at 31 December 2016, the outstanding sell USD contracts are hedging highly probable forecast sales of coal.

During the year ended 31 December 2016, there was no amounts recycled from other comprehensive income to profit or loss in respect of the contracts (2015: loss of \$22.3 million).

D Capital Structure and Financing (continued)

D4 Contributed equity

Accounting Policy

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Costs directly attributable to the issue of new shares, options or other equity instrument are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(a) Contributed equity

	31 December 2016 Number	31 December 2015 Number	31 December 2016 \$M	31 December 2015 \$M
<i>(i) Share capital</i>				
Ordinary shares (note (c)) Issued and fully paid up	994,276,659	994,216,659	656.8	656.8
<i>(ii) Other equity securities</i>				
Subordinated capital notes (note (d))	18,005,042	18,005,102	2,184.1	2,183.3
Contingent value right shares			262.9	262.9
			<u>2,447.0</u>	<u>2,446.2</u>
Total contributed equity			<u>3,103.8</u>	<u>3,103.0</u>

(b) Ordinary shares

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

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

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. During the year 60,000 ordinary shares were issued on conversion of the SCNs noted below.

(c) Subordinated capital notes

On 31 December 2014, Yancoal SCN Limited, a wholly owned subsidiary of Yancoal Australia Ltd issued 18,005,102 Subordinated Capital Notes (SCN Notes) at USD100 each. Each SCN Note is convertible into 1,000 Yancoal Australia Limited ordinary shares. During 2016 60 SCN Notes were converted into 60,000 ordinary shares of the Company in accordance with the terms of the SCN Notes. At 31 December 2016 there were 18,005,042 SCN Notes on issue.

The subordinated capital notes are perpetual, subordinated, convertible, unsecured capital notes of face value USD100 per note. The subordinated capital notes entitle holders to receive fixed rate distribution payments, payable semi-annually in arrears unless deferred. The distribution rate is set at 7% per annum, the rate is resettable to the 5 year USD mid-swap plus the initial margin per annum every 5 years. The SCN Notes are convertible at the option of the holders to Yancoal Australia Ltd ordinary shares within 30 years.

(d) Contingent value right shares

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

D Capital Structure and Financing (continued)

D4 Contributed equity (continued)

(e) Capital risk management

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

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

	Notes	31 December 2016 \$M	31 December 2015 \$M
Total interest-bearing liabilities	D2	4,950.9	4,731.5
Less: cash and cash equivalents	C6	(190.3)	(154.4)
Net debt		4,760.6	4,577.1
Total equity		1,351.8	1,688.3
Total capital		6,112.4	6,265.4
Gearing ratio		77.9%	73.1%

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

D5 Distributions

(a) SCN distributions

	2016			2015		
	% per SCN	Total US\$'M	Total AU\$'M	% per SCN	Total US\$'M	Total AU\$'M
Interim distribution paid on 29 July 2016 (2015 paid 31 July 2015)	7%	63.2	84.0	7%	73.2	100.4
Final distribution to be accrued as at 31 December 2016 (31 December 2015 accrual, paid on 29 January 2016)	7%	63.0	87.1	7%	62.9	86.0
		<u>126.2</u>	<u>171.1</u>		<u>136.1</u>	<u>186.4</u>

Due to foreign exchange the 31 January 2016 payment increase by AU\$2.4 million from the 31 December 2015 accrual.

(b) Franked dividends

	31 December 2016 \$M	31 December 2015 \$M
Franking credits available for subsequent reporting periods based on an income tax rate of 30% (2015 - 30%)	0.1	0.1

D Capital Structure and Financing (continued)

D5 Distributions (continued)

(b) Franked dividends (continued)

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax and franking debits that will arise as a result of refunds of tax that are reflected in the current tax receivable balance at the reporting date;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

D6 Hedge reserve

Accounting Policy

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

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

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

(a) Reserves

	31 December 2016 \$M	31 December 2015 \$M
Hedging reserve	(816.6)	(879.9)
	<u>(816.6)</u>	<u>(879.9)</u>

Movements:

Hedging reserve - cash flow hedges

Opening balance	(879.9)	(561.2)
Loss recognised on USD interest bearing liabilities	(42.9)	(474.9)
Transferred to profit or loss	133.3	22.3
Deferred income tax (benefit)/ expense	(27.1)	133.9
Closing balance	<u>(816.6)</u>	<u>(879.9)</u>

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

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

During the year ended 31 December 2016, losses of \$133.3 million were transferred from other comprehensive income to profit or loss in respect of hedging reserve. During the year ended 31 December 2015 a loss of \$22.3 million on foreign exchange contracts was transferred from other comprehensive income to profit or loss.

D Capital Structure and Financing (continued)

D7 Contingencies

Contingent liabilities

The Group had contingent liabilities at 31 December 2016 in respect of:

(i) *Bank guarantees*

	31 December 2016 \$M	31 December 2015 \$M
Parent entity and consolidated entity		
Guarantees secured over deposits	-	23.8
Performance guarantees provided to external parties	88.2	161.8
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	77.2	100.9
	165.4	286.5
Joint ventures (equity share)		
Guarantees secured over deposits	-	0.3
Guarantees provided in respect of land acquisition	20.0	50.0
Performance guarantees provided to external parties	64.5	-
Guarantees provided in respect of the cost of restoration of certain mining leases	27.4	-
	111.9	50.3
Guarantees held on behalf of related parties (refer to Note E2(d) for details of beneficiaries)		
Guarantees secured over deposits	-	1.1
Performance guarantees provided to external parties	111.8	101.8
Guarantees provided in respect of the cost of restoration of certain mining leases given to government departments as required by statute	52.2	18.4
	164.0	121.3
	441.3	458.1

(ii) *Tax audit*

The Australian Taxation Office ("ATO") is undertaking an audit of certain matters in the Company's tax filing for the year ended 31 December 2012. These matters remain in progress and steps are being taken to finalise them.

(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.

D Capital Structure and Financing (continued)

D7 Contingencies (continued)

Contingent liabilities (continued)

(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.

The Group holds the following financial instruments:

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

The Board of Directors has overall responsibility for determining risk management objectives and policies and risk management is carried out by the Group Audit and Risk Management department along with the Group Treasury department. The Board provides written principles for overall risk management, as well as policies covering specific areas such as the use of derivative financial instruments to mitigate foreign exchange risk. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation.

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

(a) Market risk

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

(i) Foreign exchange risk

The Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the Australian dollar. Export coal sales are denominated in US dollars and a strengthening of the Australian dollar against the US dollar has an adverse impact on earnings and cash flow settlement. Liabilities for some plant and equipment purchases and loans are denominated in currencies other than the Australian dollar and a weakening of the Australian dollar against other currencies has an adverse impact on earnings and cash flow settlement.

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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 (2015: nil).

Natural cash flow hedge

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

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

Royalty receivable

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

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

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

	31 December 2016		31 December 2015	
	USD \$M	RMB* \$M	USD \$M	RMB* \$M
Cash and cash equivalents	124.1	0.5	29.9	95.7
Trade receivables	164.7	-	87.0	-
Royalty receivable	198.9	-	204.9	-
Trade and other payables	(156.6)	-	(77.9)	-
Interest bearing liabilities	(4,883.3)	-	(4,700.7)	-
Derivative financial instruments	(0.6)	-	-	(1.0)
Net Exposure	(4,552.8)	0.5	(4,456.8)	94.7

* 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 in 2015 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
2016				
Cash and cash equivalents	9.6	-	(7.9)	-
Trade and other receivables	12.8	-	(10.5)	-
Royalty receivable	15.5	-	(12.1)	-
Total increase / (decrease) in financial assets	37.9	-	(30.5)	-
Trade and other payables	(12.2)	-	10.0	-
Interest-bearing liabilities	-	(379.8)	-	310.8
Derivative financial instruments	(7.3)	-	5.9	-
Total (increase) / decrease in financial liabilities	(19.5)	(379.8)	15.9	310.8
Total increase / (decrease) in profit after tax and equity	18.4	(379.8)	(14.6)	310.8
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)	-

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

	10% depreciation of AUD/USD		10% appreciation of AUD/USD	
	Profit after income tax \$M	Equity \$M	Profit after income tax \$M	Equity \$M
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

Equity movements above reflect movements in the hedge reserve due to foreign exchange movements on USD interest bearing loans.

(ii) Price risk

The price risk of the Group include coal price risk.

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

Sensitivity

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

	-10%		+10%	
	Profit after income tax \$M	Equity \$M	Profit after income tax \$M	Equity \$M
2016				
Royalty receivable	(13.9)	-	13.9	-
Total (decrease) / increase in profit after tax and equity	(13.9)	-	13.9	-
2015				
Royalty receivable	(14.3)	-	14.3	-
Total (decrease) / increase in profit after tax and equity	(14.3)	-	14.3	-

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk

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

The Group's cash flow interest rate risk for assets primarily arises from cash at bank and deposits subject to market bank rates. Floating rate borrowings bearing LIBOR rates are re-set on a quarterly basis.

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

	31 December 2016		31 December 2015	
	Weighted average interest rate %	Balance \$M	Weighted average interest rate %	Balance \$M
Cash and cash equivalents	0.5	190.3	0.9	154.4
Restricted cash	2.1	29.4	0.9	3.5
Bank loans and other borrowings	4.4	3,593.1	3.6	3,750.3
Net exposure to cash flow interest rate risk		<u>3,812.8</u>		<u>3,908.2</u>

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
2016				
Cash and cash equivalents	(0.2)	-	0.3	-
Trade and other receivables	(0.1)	-	0.1	-
Interest bearing loan to associate	(1.9)	-	1.9	-
Interest bearing liabilities	6.3	-	(6.3)	-
	<u>4.1</u>	-	<u>(4.0)</u>	-
2015				
Cash and cash equivalents	(0.1)	-	0.1	-
Trade and other receivables	(0.1)	-	0.1	-
Interest bearing liabilities	6.6	-	(6.6)	-
	<u>6.4</u>	-	<u>(6.4)</u>	-

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(b) Credit risk

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

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

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

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

	31 December 2016 \$M	31 December 2015 \$M
Cash and cash equivalents	222.2	159.0
Trade and other receivables	842.6	635.3
	1,064.8	794.3

2015 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 (2015: 46%, 22%, 7% and 4%).

At 31 December 2016, derivative financial instruments were in a net liability position (2015: net liability position). As a result no credit risk has been disclosed above.

(c) Liquidity risk

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

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

Liquidity risk is managed by maintaining sufficient cash and liquid deposit balances and having readily accessible standby facilities in place in accordance with the Board's risk management policy. Details regarding finance facilities are set out in Note D2.

Maturities of financial liabilities

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

- (a) all non-derivative financial liabilities, and

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturities of financial liabilities (continued)

- (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	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying amount
At 31 December 2016	\$M	\$M	\$M	\$M	\$M	\$M
Non-derivatives						
Trade payables	467.1	-	-	-	467.1	467.1
Interest-bearing liabilities	340.8	332.2	3,300.8	2,785.7	6,759.5	4,951.0
Total non-derivatives	807.9	332.2	3,300.8	2,785.7	7,226.6	5,418.1
Derivatives						
Gross settled (Derivative financial instruments)						
- (inflow)	(92.8)	-	-	-	(92.8)	-
- outflow	93.4	-	-	-	93.4	0.6
Total derivatives	0.6	-	-	-	0.6	0.6
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total contractual cash flows	Carrying amount
At 31 December 2015	\$M	\$M	\$M	\$M	\$M	\$M
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

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(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 2016 and 31 December 2015:

31 December 2016	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
Assets				
Royalty receivable	-	-	198.9	198.9
Total assets	-	-	198.9	198.9
Liabilities				
Derivatives used for hedging				
Forward foreign exchange contracts	-	0.6	-	0.6
Total liabilities	-	0.6	-	0.6
31 December 2015	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
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
Other derivatives	-	-	-	-
Total liabilities	-	1.0	-	1.0

(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.

D Capital Structure and Financing (continued)

D8 Financial risk management (continued)

(d) Fair value measurements (continued)

(ii) Valuation techniques (continued)

The valuation techniques used for level 2 financial instruments are:

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

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 31 December 2016:

	31 December 2016 Royalty Receivable \$M	31 December 2015 Royalty Receivable \$M
Opening balance	204.9	199.2
Cash received / receivable	(20.5)	(17.9)
Unwinding of the discount	20.9	21.2
Remeasurement of the royalty receivable recognised in profit and loss	(6.4)	2.4
Closing balance	<u>198.9</u>	<u>204.9</u>

Royalty receivable

The fair value of the royalty receivable is the fair value of the right to receive a royalty of 4% of Free on Board Trimmed Sales from the Middlemount Mine. The financial asset has a finite life being the life of the Middlemount Mine and will be measured on a fair value basis.

The fair value is determined using the discounted future cash flows that are dependent on the following unobservable inputs: forecast sales volumes, coal prices and fluctuations in foreign exchange rates. The forecast sales volumes are based on the internally maintained budgets, five year business plan and life of mine models. The forecast coal prices and long term exchange rates are based on external data consistent with the data used for impairment assessments (refer to Note C3). The risk-adjusted post-tax discount rate used to determine the future cash flows is 10.5%.

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 approximate to the fair value for the following:

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

E Group structure

This section explains significant aspects of the Groups structure including interests in other entities, related party transactions, parent entity information, controlled entities and the deed of cross guarantee.

E1 Interests in other entities

Accounting Policies

(i) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investments in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

(ii) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties undertake economic activities under joint control. Joint control exists only when the strategic, financial and operational policy decisions relating to the activities of the joint arrangement require the unanimous consent of the parties sharing control.

A joint arrangement is either a joint operation or a joint venture. The structure of each joint arrangement is analysed to determine whether the joint arrangement is a joint operation or a joint venture. The classification of a joint arrangement is dependent on the rights and obligations of the parties to the arrangement.

Joint operations

The Group recognises its proportional right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

Joint ventures

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

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

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

E Group structure (continued)

E1 Interests in other entities (continued)

(a) Joint operations

A controlled entity, Moolarben Coal Mines Pty Limited, has an 81% interest in the Moolarben Joint Venture whose principal activity is the development and operation of open-cut and underground coal mines.

A controlled entity, 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 2016. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business / country of incorporation	% of ownership interest		Nature of relationship	Measurement method	Carrying amount of investment	
		2016 %	2015 %			2016 \$M	2015 \$M
Newcastle Coal Infrastructure Group Pty Ltd	Australia	27	27	Associate	Equity method	-	-
Watagan Mining Company Ltd	Australia	100	-	Associate	Equity method	-	-
Middlemount Coal Pty Ltd	Australia	49.9997	49.9997	Joint Venture	Equity method	4.7	7.7

(i) Investment in associates

Newcastle Coal Infrastructure Group Pty Ltd

The Group holds 27% (2015: 27%) of the ordinary shares of Newcastle Coal Infrastructure Group Pty Ltd ("NCIG"). Under the shareholder agreement between the Group and other shareholders, the Group has 27% of the voting power of NCIG. The Group has the right to appoint a director and is currently represented on the Board to partake in policy-making processes.

Watagan Mining Company Pty Limited

During 2015 the Group established a 100% owned subsidiary, Watagan Mining Company Pty Ltd ("Watagan"). On 18 February 2016, the Group executed a Bond Subscription Agreement, together with other agreements (the "Watagan Agreements") that, on completion, transferred the Group's interest in three of its 100% owned NSW coal mining operations, being the Austar, Ashton and Donaldson coal mines (the "three mines"), to Watagan for a purchase price of \$1,363.4 million (an amount equal to the book value of the three mines at completion). The purchase price was funded by way of a \$1,363.4 million loan from Yancoal Australia Ltd to Watagan bearing interest at BBSY plus 7.06% with a maturity date of 1 April 2025. The outstanding interest and principal of this loan is guaranteed by Yankuang Group Co., Ltd ("Yankuang"), the Group's ultimate parent entity. The completion date of the transaction was 31 March 2016.

E Group structure (continued)

E1 Interests in other entities (continued)

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

(i) Investment in associates (continued)

Watagan Mining Company Pty Limited (continued)

On completion Watagan issued US\$775 million of secured debt bonds with a term of approximately 9 years to three external financiers ("Bondholders"). Watagan will issue up to a further US\$175 million of debt bonds to one of the Bondholders prior to 31 March 2017. The Bondholders will receive interest on the face value outstanding on the bonds comprising a fixed interest component, as well as a variable interest component that is tied to the EBITDA performance of Watagan. Under the terms of the Watagan Agreements, it was determined that upon issuance of the bonds the Group lost control of Watagan. This loss of control was determined to occur on the issuance date of the bonds on the basis that the power over the key operating and strategic decisions of Watagan no longer reside with the Group. Specifically, those powers were transferred to the Bondholders under the terms of the Watagan Agreements as the Bondholders were given control of Watagan's board of directors via appointment of the majority of directors. This loss of control resulted in the Group de-consolidating the consolidated results of Watagan from the transaction completion date and the Group began to equity account for its 100% equity interest in Watagan as an associate. At 31 December 2015 due to the Watagan transaction being near completion, and that the transaction was considered to be highly likely, the three mines were disclosed as Assets Classified as Held for Sale.

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

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 (i) Yancoal as the exclusive provider of management services (being back office support functions) to the Watagan group; and (ii) 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 & Logistics Representation and Logistics Agreement appointing Yancoal as (i) 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 (ii) 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 maintains one seat on the Watagan board and has ongoing involvement under the terms of the Watagan Agreements, the Group was determined to have significant influence over Watagan. As a result, the Group equity accounts its 100% equity interest from 31 March 2016. The Group will account for the \$1,363.4 million 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. A guarantee has been provided by Yankuang, the ultimate parent entity of Yancoal, to indemnify Yancoal for any amounts due and payable under the loan which are not paid by Watagan.

E Group structure (continued)

E1 Interests in other entities (continued)

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

(i) Investment in associates (continued)

Watagan Mining Company Pty Limited (continued)

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 re-consolidate Watagan's results and financial position from the point control is regained, and this re-acquisition would be treated as a business combination. Additionally, the Bondholders have a put option that allows them to put the issued debt 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. The assessment of control is considered a significant judgement.

Summarised financial information of associates

The information below reflects the Group's share of the results of its principal associates and the aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy. The 31 December 2015 balances presented for Watagan are the consolidated book value of the three mines disclosed as Assets Classified as Held for Sale.

	NCIG		Watagan	
	31 December 2016 \$M	31 December 2015 \$M	31 December 2016 \$M	31 December 2015 \$M
Cash and cash equivalent	14.0	12.3	100.2	4.6
Other current assets	8.8	9.2	310.5	95.2
Current assets	22.8	21.5	410.7	99.8
Property, plant and equipment	636.2	660.9	883.9	844.3
Mining tenements	-	-	332.3	342.5
Exploration and evaluation assets	-	-	311.1	311.1
Other non current assets	137.8	140.6	40.2	39.6
Non- current assets	774.0	801.5	1,567.5	1,537.5
Total assets	796.8	823.0	1,978.2	1,637.3
Current liabilities	12.2	12.2	42.5	75.1
Deferred tax liability	29.0	29.5	213.9	207.7
Other non-current liabilities	1,067.7	1,082.6	1,883.5	38.9
Non- current liabilities	1,096.7	1,112.1	2,097.4	246.6
Total liabilities	1,108.9	1,124.3	2,139.9	321.7
Net Assets	(312.1)	(301.3)	(161.7)	1,315.8
Revenue	100.7	96.6	282.5	-
Management fees (Yancoal Australia Ltd)	-	-	(38.4)	-
Interest paid / payable (Bondholders)	-	-	(54.3)	-
Interest paid / payable (Yancoal Australia Ltd)	-	-	(74.5)	-
Other interest expenses	(56.2)	(57.6)	(4.5)	-
Depreciation & amortisation expenses	(28.7)	(28.8)	(90.4)	-
Net loss on foreign exchange	(5.2)	(111.0)	(35.5)	-
Other expenses	(21.0)	(27.4)	(98.4)	-
Income tax benefit	(0.4)	35.0	(48.2)	-
Loss from continuing operations after tax	(10.8)	(93.2)	(161.7)	-
Other comprehensive (expense) / income	-	-	-	-
Total comprehensive income / (expense)	(10.8)	(93.2)	(161.7)	-

E Group structure (continued)

E1 Interests in other entities (continued)

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

(i) Investment in associates (continued)

Movements in carrying amounts

The Group's share of NCIG's profit / (loss) after tax has not been recognised for the years ended 31 December 2016 and 31 December 2015 since the Group's share of NCIG's accumulated losses exceeds its interest in NCIG at 31 December 2016 and at 31 December 2015.

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

(ii) Interest in joint venture

Middlemount Coal Pty Ltd

A controlled entity, Gloucester (SPV) Pty Ltd, has a 49.9997% interest in the net assets of Middlemount Coal Pty Ltd ("Middlemount"), an incorporated joint venture, whose principal activity is the development and operation of open-cut coal mines in the Bowen Basin.

Summarised financial information of joint venture

The following table provides summarised financial information for Middlemount. The information disclosed reflects the Group's share of the results of Middlemount and its aggregated assets and liabilities. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	31 December 2016 \$M	31 December 2015 \$M
Cash and cash equivalents	6.4	9.8
Other current assets	58.8	33.6
Total current assets	<u>65.2</u>	<u>43.4</u>
Total non-current assets	<u>545.6</u>	597.1
Current financial liabilities	-	-
Other current liabilities	112.7	122.0
Total current liabilities	<u>112.7</u>	<u>122.0</u>
Non-current financial liabilities	389.7	373.7
Other non-current liabilities	103.7	137.1
Total non-current liabilities	<u>493.4</u>	<u>510.8</u>
Net assets	<u>4.7</u>	<u>7.7</u>
Revenue	248.7	213.1
Depreciation and amortisation	(20.7)	(41.0)
Other expenses	(205.2)	(187.9)
Interest expense	(24.2)	(25.0)
Income tax (expense) / benefit	(3.7)	3.7
Profit / Loss from continuing operations after tax	<u>(5.1)</u>	<u>(37.2)</u>
Movements in reserves, net of tax	2.1	19.5
Total comprehensive income / (expense)	<u>(3.0)</u>	<u>(17.7)</u>

E Group structure (continued)

E1 Interests in other entities (continued)

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

(ii) Interest in joint venture (continued)

Summarised financial information of joint venture (continued)

The liabilities of Middlemount include an interest bearing liability of \$346.8 million (face value of \$349.9 million) due to the Group at 31 December 2016 (31 December 2015: \$331.1 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 2015: \$130.0 million). The liabilities of Middlemount also includes a royalty payable of \$73.7 million due to the Group at 31 December 2016 (2015: \$51.3 million).

Movements in carrying amounts

	31 December 2016 \$M	31 December 2015 \$M
Opening net book amount	7.7	25.4
Share of profit / (loss) of equity-accounted investees, net of tax	(5.1)	(37.2)
Movements in reserves, net of tax	2.1	19.5
Closing net book amount	<u>4.7</u>	<u>7.7</u>

(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 2016.

There were no commitments in respect of the Group's interest in Middlemount at 31 December 2016.

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

E2 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).

E Group structure (continued)

E2 Related party transactions (continued)

(b) Transactions with other related parties

The following transactions occurred with related parties:

	31 December 2016 \$	31 December 2015 \$
<i>Sales of goods and services</i>		
Sales of coal to Noble Group Limited	162,253,762	247,296,672
Sales of coal to Watagan Mining Company Pty Ltd	60,583,319	-
Sales of coal to Yancoal International (Holding) Co., Ltd	40,700,933	16,304,442
Provision of marketing and administrative services to other related parties - Watagan Group entities	6,517,672	-
Provision of marketing and administrative services to other related parties - Yancoal International Group	9,598,367	10,636,916
	279,654,053	274,238,030
<i>Purchases of goods and services</i>		
Purchase of coal from Syntech Resources Pty Ltd	(30,386,783)	(6,456,335)
Purchase of coal from Noble Group Limited	-	(2,350,352)
Purchase of coal from Watagan Mining Company Ltd	(48,347,776)	-
	(78,734,559)	(8,806,687)
<i>Advances / loans to and repayment of advances</i>		
Loan to Watagan Mining Company Ltd	(1,363,372,059)	-
Net repayment of loan to Watagan Mining Company Pty Ltd	588,372,059	-
Repayment from a related party - Premier Coal Holdings Pty Ltd	-	2,633,311
Advances to a related party - Premier Coal Holdings Pty Ltd	(35,000,000)	(2,635,046)
Repayment from a related party - Yancoal Technology Development Pty Ltd	-	16,056,375
Advances to a related party - Yancoal Technology Development Pty Ltd	-	(16,293,189)
	810,000,000	238,549
<i>Equity subscription, debt repayment and debt provision</i>		
Loans from Yanzhou Coal Mining Company Limited	351,947,846	351,271,396
Loan from Yancoal International (Holding) Co., Limited	-	140,056,022
Loan from Yancoal International Trading Co., Ltd HK	-	9,986,065
	351,947,846	501,313,483
<i>Finance costs</i>		
Interest paid on loans from Yancoal International Resources Development Co., Ltd	(7,651,933)	(8,652,753)
Interest accrued on loans from Yancoal International Resources Development Co., Ltd	(1,207,955)	(1,221,306)
Interest paid on loans from Yanzhou Coal Mining Company Limited	(17,520,090)	(1,945,679)
Interest accrued on loans from Yanzhou Coal Mining Company Limited	(25,204,592)	(10,730,812)
Interest paid on loans from Yancoal International (Holding) Co., Ltd	(4,698,513)	-
Interest accrued on loans from Yancoal International (Holding) Co., Ltd	(4,055,067)	(1,574,986)
Interest paid on loans from Yancoal International Trading Co., Ltd HK	(7,471,634)	(11,095,627)
Interest accrued on loans from Yancoal International Trading Co., Ltd HK	(8,110,134)	(8,379,376)
	(75,919,918)	(43,600,539)

E Group structure (continued)

E2 Related party transactions (continued)

(b) Transactions with other related parties (continued)

	31 December 2016 \$	31 December 2015 \$
<i>Other costs</i>		
Corporate guarantee fee paid to Yanzhou Coal Mining Company Limited (extended portion)	(49,050,753)	(75,372,213)
Corporate guarantee fee accrued to Yanzhou Coal Mining Company Limited (extended portion)	(51,814,273)	(24,379,364)
Marketing commission paid to Noble Group Limited	-	(237,266)
Port charges paid to Watagan Mining Company Pty Ltd	(4,199,702)	-
Port charges paid to NCIG Holdings Pty Limited	(68,496,548)	(63,685,004)
Port charges accrued to NCIG Holdings Pty Limited	(2,069,401)	(1,084,488)
Port charges paid to Noble Group Limited	(1,016,477)	(2,165,779)
Port charges accrued to Noble Group Limited	-	(123,704)
Demurrage paid to Noble Group Limited	(405,456)	(875,281)
Demurrage paid to NCIG Holdings Pty Limited	-	(347,342)
Demurrage accrued to Noble Group Limited	(234,317)	(430,343)
Demurrage paid to Watagan Mining Company Pty Ltd	(13,442)	-
Port charges accrued to Watagan Mining Company Pty Ltd	(758,677)	-
Arrangement fee paid on loans from Yancoal International Resources Development Co., Ltd	(1,718,186)	(1,918,638)
Arrangement fee accrued on loans from Yancoal International Resources Development Co., Ltd	(267,732)	(270,691)
	(180,044,964)	(170,890,113)
<i>Finance income</i>		
Interest income receivable from Premier Coal Holdings Pty Ltd	1,150,969	-
Interest income capitalised into loan receivable from Middlemount Coal Pty Ltd	18,797,033	18,921,014
Interest income received on loan to Watagan Mining Company Pty Ltd	74,531,961	-
	94,479,963	18,921,014
<i>Other income</i>		
Management and mining service fee charged to Watagan Mining Company Pty Ltd	38,413,132	-
Royalty income receivable from Middlemount Coal Pty Ltd	20,492,118	17,765,029
Bank guarantee fee charged to Watagan Group	1,315,861	-
Bank guarantee fee charged to Syntech Resources Pty Ltd	1,355,706	1,506,328
Bank guarantee fee charged to Premier Coal Holdings Pty Ltd	310,849	310,000
Longwall hire fee charged to Austar Coal Mine Pty Ltd	2,567,334	-
	64,455,000	19,581,357

(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:

E Group structure (continued)

E2 Related party transactions (continued)

(c) Outstanding balances arising from transactions with related parties (continued)

	31 December 2016 \$	31 December 2015 \$
<i>Current assets</i>		
<i>Trade and other receivables</i>		
Receivable from Yancoal International Group entities in relation to cost reimbursement	5,245,415	24,165,593
Receivable from Watagan Group entities in relation to cost reimbursement	823,277	-
Trade receivable from Noble Group Limited in relation to sales of coal	40,602,900	14,136,826
Promissory Notes receivable from Yancoal International (Holding) Co., Ltd	21,174,124	21,174,124
Royalty receivable from Middlemount Coal Pty Ltd	73,690,232	51,270,354
Other receivable's from Yancoal International Group entities	35,000,000	-
	176,535,948	110,746,897
<i>Non-current assets</i>		
<i>Advances to joint venture</i>		
Receivable from Middlemount Coal Pty Ltd being an unsecured, non interest bearing advance	346,845,834	331,075,808
Receivable from Watagan Mining Company Pty Ltd being an unsecured, interest bearing loan	775,000,000	-
	1,121,845,834	331,075,808
<i>Current liabilities</i>		
<i>Other payables</i>		
Payables to Yanzhou Coal Mining Company Limited	77,018,865	35,110,176
Payables to Yancoal International Resources Development Co., Ltd	1,475,687	1,491,997
Payables to Yancoal International Trading Co., Ltd HK	8,110,134	8,379,376
Payables to Yancoal International (Holding) Co., Ltd	4,055,067	1,574,986
Payables to Yancoal International Group entities	-	2,803,657
Payables to Noble Group Limited	234,317	554,047
Payable to NCIG Holdings Pty Limited	-	1,084,488
	90,894,070	50,998,727
<i>Non-current liabilities</i>		
<i>Other payables</i>		
Payable to Yancoal International Resources Development Co., Ltd being an unsecured, interest-bearing loan	160,305,279	158,769,368
Payable to Yancoal International (Holding) Co., Ltd being an unsecured, interest-bearing loan	138,197,899	136,873,802
Payable to Yancoal International Trading Co., Ltd HK being an unsecured, interest-bearing loan	276,395,799	283,717,268
Payable to Yanzhou Coal Mining Company Limited being an unsecured, interest-bearing loan	715,282,394	363,334,548
	1,290,181,371	942,694,986

E Group structure (continued)

E2 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 2016	31 December 2015
	\$	\$
Syntech Resources Pty Ltd	88,213,921	59,365,000
Syntech Holdings Pty Ltd	-	32,907,000
AMH (Chinchilla Coal) Pty Ltd	29,000	29,000
Premier Coal Limited	29,000,000	29,000,000
Tonford Holdings Pty Ltd	10,000	-
Athena Joint Venture	2,500	-
Ashton Coal Mines Ltd	12,287,795	-
Austar Coal Mine Pty Ltd	27,035,000	-
Donaldson Coal Pty Ltd	7,322,000	-
Yankuang Resources Ltd	107,805	-
	164,008,021	121,301,000

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

(e) Terms and conditions

Transactions between related parties are usually on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The US\$116.0 million loan obtained in 2013 from Yancoal International Resources Development Co., Ltd was charged at a fixed interest rate of 7.00% p.a (inclusive of arrangement fees).

On 31 December 2014 an AU\$1,400 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2016 an additional US\$190.6 million was drawn (D2(c)). As at 31 December 2016 a total of US\$681.5 million has been drawn.

On 31 December 2014 an AU\$807 million facility was provided by Yanzhou at a fixed interest rate of 7% on any amounts drawn. During 2016 an additional US\$62.8 million was drawn (D2(c)). As at 31 December 2016 a total of US\$136.0 million has been drawn.

Yanzhou provided corporate guarantees as security for the following facilities:

- Syndicated facility and bi-lateral facility (converted to a bank guarantee facility in 2016) - a fixed rate of 2.5% is charged on the outstanding loan principal and bank guarantee of USD2,740.0 million.
- ICBC bank guarantee facility - a fixed rate of 2.0% is charged on the facility limit of AUD100.0 million.

E Group structure (continued)

E3 Parent entity financial information

Accounting Policy

(a) Investments in subsidiaries, associates and joint arrangements

Investments in subsidiaries, associates and joint arrangements are accounted for at cost less any impairment in the financial statements of Yancoal Australia Ltd. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(b) Tax consolidation legislation

Yancoal Australia Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Yancoal Australia Ltd, and the entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Yancoal Australia Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

E Group structure (continued)

E3 Parent entity financial information (continued)

(a) Summary financial information

The individual financial statements for the parent entity, Yancoal Australia Ltd show the following aggregate amounts:

	31 December 2016 \$M	31 December 2015 \$M
Current assets	231.5	1,145.0
Non-current assets	6,780.3	6,700.2
Total assets	7,011.8	7,845.2
Current liabilities	162.6	157.4
Non-current liabilities	5,303.2	4,961.7
Total liabilities	5,465.8	5,119.1
Net assets	1,546.0	2,726.1
<i>Shareholders' equity</i>		
Contributed equity	3,114.8	3,114.8
Reserves		
Cash flow hedges	(816.6)	(879.9)
Retained earnings	(752.2)	491.1
Capital and reserves attributable to the owners of Yancoal Australia Ltd	1,546.0	2,726.0
(Loss) / profit for the year	(1,066.2)	186.7
Other comprehensive income	90.4	(326.0)
Total comprehensive income	(975.8)	(139.3)

(b) Guarantees entered into by the parent entity

As at 31 December 2016, the parent entity had contingent liabilities in the form of a bank guarantee amounting to \$441.3 million (2015: \$458.1 million) in support of the operation of the entity, its subsidiaries and related parties (refer to Note E2).

(c) Contingent liabilities of the parent entity

There are cross guarantees given by Yancoal Australia Ltd and certain subsidiaries as described in Note E5.

The parent entity did not have any contingent liabilities as at 31 December 2016, except for those described in Note D7.

E4 Controlling interests

(a) Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries:

E Group structure (continued)

E4 Controlling interests (continued)

(a) Significant investments in subsidiaries (continued)

Name of entity	Country of incorporation	Equity holding	
		2016 %	2015 %
The Company			
Yancoal Australia Ltd (i)	Australia	-	-
Controlled entities			
Yancoal SCN Limited (iv)	Australia	100.0	100.0
Yancoal Australia Sales Pty Ltd (i) (iii)	Australia	100.0	100.0
Yancoal Resources Limited (iii)	Australia	100.0	100.0
Yancoal Mining Services Pty Ltd	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
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 2) Pty Limited (ii)	Australia	100.0	100.0
CIM Mining Pty Ltd (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
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
Paway Limited	British Virgin Islands	100.0	100.0
Non controlled entities (v)			
Watagan Mining Company Pty Ltd	Australia	100.0	100.0
Austar Coal Mine Pty Limited (i) (iii)	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 (Sub Holdings 1) Pty Limited (i)	Australia	100.0	100.0
Donaldson Coal Holdings Limited (i)	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
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

E Group structure (continued)

E4 Controlling interests (continued)

(a) Significant investments in subsidiaries (continued)

- (i) These subsidiaries have been granted relief from the requirement to prepare financial reports in accordance with ASIC Legislative Instrument 2016/785. These subsidiaries represent the closed group for the purposes of the class order. For further information refer to Note E5.
- (ii) These subsidiaries are members of the extended closed group for the purposes of ASIC Legislative Instrument 2016/785. For further information refer to Note E5.
- (iii) These entities are considered to be the material controlled entities of the Group. Their principal activities are the exploration, development, production and marketing of metallurgical and thermal coal.
- (iv) This entity is considered to be a material controlled entity of the Group. The principal activities are financing and the issue of Subordinated Capital Notes.
- (v) On 31 March 2016 the Group lost control of Watagan Mining Company Pty Ltd and its subsidiaries. For further information refer to Note E1.

The subsidiaries as listed have share capital consisting solely of ordinary shares and subordinated capital notes, which are held directly by the Group, and the proportion of ownership interests held equals to the voting rights held by the Group apart from the non controlled entities that are 33% being the current proportion of board members. The country of incorporation or registration is also their principal place of business.

E5 Deed of cross guarantee

Yancoal Australia Ltd and certain subsidiaries (refer to Note E5), are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors' Report under Legislative Instrument 2016/785 issued by the Australian Securities and Investments Commission.

(a) Consolidated statement of profit or loss and other comprehensive income

Set out below is a Consolidate Statement of Profit or Loss and Other Comprehensive Income and a summary of movements in consolidated retained earnings for the year ended 31 December 2016 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 2016 \$M	31 December 2015 \$M
Revenue	305.0	487.3
Other income	17.6	5.8
Changes in inventories of finished goods and work in progress	(3.8)	(1.3)
Raw materials and consumables used	(28.0)	(54.7)
Employee benefits expense	(104.9)	(116.6)
Depreciation and amortisation expense	(31.6)	(73.0)
Coal purchase	(209.5)	(155.2)
Transportation expenses	(67.0)	(81.2)
Contractual services and plant hire expenses	(34.0)	(112.4)
Government royalties expense	(6.4)	(21.1)
Changes in deferred mining costs	-	(4.6)
Other operating expenses	(89.9)	(76.7)
Finance costs	(212.7)	(158.3)
Loss before income tax	(465.2)	(362.0)
Income tax benefit	195.6	73.9
Loss for the year	(269.6)	(288.1)

E Group structure (continued)

E5 Deed of cross guarantee (continued)

(a) Consolidated statement of profit or loss and other comprehensive income (continued)

	31 December 2016 \$M	31 December 2015 \$M
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges:		
Fair value losses taken to equity	42.9	(490.1)
Fair value losses transferred to profit or loss	(133.3)	24.5
Deferred income tax benefit	27.1	139.7
Other comprehensive expense for the period, net of tax	(63.3)	(325.9)
Total comprehensive expense for the year	(332.9)	(614.0)

Summary of movements in consolidated retained earnings

Retained earnings at the beginning of the financial year	(254.6)	200.2
Opening retained earnings attributable to new members	-	19.6
Loss after income tax	(269.6)	(288.0)
Distributions to SCN holders	(173.9)	(186.4)
Retained earnings at the end of the financial year	(698.1)	(254.6)

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 31 December 2016 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 2016 \$M	31 December 2015 \$M
Current assets		
Cash and cash equivalents	118.7	131.6
Trade and other receivables	1,287.0	853.4
Inventories	16.4	21.9
Other current assets	1.3	4.3
Assets classified as held for sale	-	827.7
Total current assets	1,423.4	1,838.9
Non-current assets		
Trade and other receivables	49.3	49.8
Other financial assets	3,242.7	3,354.2
Property, plant and equipment	360.2	292.1
Mining tenements	269.9	274.0
Interest bearing loan to associates	775.0	-
Deferred tax assets	1,302.7	1,122.6
Intangible assets	1.7	2.6
Exploration and evaluation assets	272.1	263.7
Other non current assets	0.1	-
Total non-current assets	6,273.7	5,359.0
Total assets	7,697.1	7,197.9

E Group structure (continued)

E5 Deed of cross guarantee (continued)

(b) Consolidated balance sheet (continued)

	31 December 2016 \$M	31 December 2015 \$M
Current liabilities		
Trade and other payables	859.9	110.5
Interest-bearing liabilities	7.0	7.5
Derivative financial instruments	0.6	1.0
Provisions	6.6	8.0
Liabilities directly associated with assets classified as held for sale	-	148.7
Total current liabilities	<u>874.1</u>	<u>275.7</u>
Non-current liabilities		
Interest-bearing liabilities	4,926.2	4,698.2
Deferred tax liabilities	249.9	191.4
Provisions	46.7	52.2
Total non-current liabilities	<u>5,222.8</u>	<u>4,941.8</u>
Total liabilities	<u>6,096.9</u>	<u>5,217.5</u>
Net assets	<u>1,600.2</u>	<u>1,980.4</u>
Equity		
Contributed equity	2,852.0	2,852.0
Reserves	(553.7)	(617.0)
Accumulated losses	(698.1)	(254.6)
Total equity	<u>1,600.2</u>	<u>1,980.4</u>

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 2016 \$M	31 December 2015 \$M
<i>Property, plant and equipment</i>		
Not later than one year		
Share of joint operations	138.3	5.8
Other	1.4	8.9
<i>Exploration and evaluation</i>		
Not later than one year		
Share of joint operations	-	0.3
	<u>139.7</u>	<u>15.0</u>

F Other information (continued)

F1 Commitments (continued)

(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 2016 \$M	31 December 2015 \$M
Not later than one year	25.2	4.9
Later than one year but not later than five years	66.8	0.7
	<u>92.0</u>	<u>5.6</u>

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 2016 \$M	31 December 2015 \$M
Not later than one year	23.6	10.9
Later than one year but not later than five years	52.9	25.9
Minimum lease payments	<u>76.5</u>	<u>36.8</u>
Less: future finance charges	(8.8)	(4.0)
Less: Transfer to assets classified as held for sale	-	(2.0)
Total lease liabilities	<u>67.7</u>	<u>30.8</u>
Finance leases are included in the financial statements as:		
Current lease liability (refer to Note D2)	20.2	3.7
Non-current lease liability (refer to Note D2)	47.4	27.1
	<u>67.6</u>	<u>30.8</u>

F2 Remuneration of auditors

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

(a) ShineWing Australia

	31 December 2016 \$M	31 December 2015 \$M
Audit and other assurance services	0.8	0.8
Other assurance services	0.4	0.1
Total remuneration of ShineWing Australia	<u>1.2</u>	<u>0.9</u>

F Other information (continued)

F2 Remuneration of auditors (continued)

During the year ended 31 December 2016 Ernst & Young provided services relating to the audit and review of Middlemount's financial statements of \$32,500 (Yancoal 49.9997% share, 2015: \$22,500)

F3 Reconciliation of loss after income tax to net cash outflow from operating activities

	31 December 2016 \$M	31 December 2015 \$M
Loss after income tax	(227.1)	(291.2)
Non-cash flows in loss:		
Depreciation and amortisation of non-current assets	132.6	200.4
Release of the provision for customer contracts	0.9	1.4
Release of the provision for take or pay contracts	(12.5)	(14.4)
Capitalised interest income from joint venture	(18.8)	(18.9)
Unwinding of discount on royalty receivable	(20.9)	(21.2)
Unwinding of discount on provisions	5.3	5.9
Fair value loss/(gain) on financial assets/liabilities	6.4	(2.4)
Net loss on disposal of property, plant and equipment	7.0	2.5
Gain on business combination	-	(6.3)
Release of research and development provision	-	(4.1)
Gain on forward foreign exchange contracts	-	(2.1)
Fair value losses recycled from hedge reserve	133.3	-
Foreign exchange losses/(gains)	1.3	(4.7)
Finance lease interest expenses	3.6	2.3
Operating lease income	(0.8)	-
Share of (profit)/loss of equity-accounted investees, net of tax	5.1	37.2
Changes in assets and liabilities:		
Increase in deferred tax assets	(198.7)	(216.7)
Decrease/(increase) in inventories	9.9	(10.2)
(Increase)/decrease in operating receivables	(49.5)	79.7
Increase in operating payables	130.9	12.9
Decrease in prepayments	9.2	7.2
Decrease in deferred mining assets	-	7.3
Increase in deferred tax liabilities	69.7	149.9
Decrease in provisions	(3.6)	(22.0)
Net cash outflow from operating activities	(16.7)	(107.5)

F4 Events occurring after the reporting period

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

On 24 January 2017, Yancoal announced it has entered into a binding agreement to acquire 100% of the shares in Coal & Allied Industries Limited ("Coal & Allied") from wholly-owned subsidiaries of Rio Tinto Limited for US\$2.45 billion (A\$3.27 billion) in completion and deferred cash payments, plus a coal price linked royalty (the "Transaction"). The Transaction is subject to a number of closing conditions, including Rio Tinto plc and Rio Tinto Limited shareholder approval, Yanzhou shareholder approval and various regulatory approvals. The Transaction is expected to complete in the third quarter of 2017.

F Other information (continued)

F4 Events occurring after the reporting period (continued)

In accordance with the Terms of Issue of the Subordinated Capital Notes issued by Yancoal SCN Limited in December 2014, the next distribution payment date for the SCNs occurred on 31 January 2017. The distribution was paid at a rate of 7% per annum or US\$3.50 per SCN. The total amount distributed was US\$63.0 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

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 2016.

The new standards that are applicable to for the first time for the year ended 31 December 2016 are:

AASB 1057 - Application of Australian Accounting Standards

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

AASB 2014 - 9 - Equity Accounting in Separate Financial Statements

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

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

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

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

F Other information (continued)

F6 New and amended standards adopted by the Group (continued)

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

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

These standards have introduced new disclosures for the Annual Financial Report but did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

F7 New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 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	<p><i>Financial Instruments</i></p> <p>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:</p> <ul style="list-style-type: none"> a) Amortised cost b) Fair value through profit or loss c) Fair value through other comprehensive income <p>The following requirements have generally been carried forward unchanged from AASB 139 Financial Instruments: Recognition and Measurement into AASB 9:</p> <ul style="list-style-type: none"> a) Classification and measurement of financial liabilities; and b) Derecognition requirements for financial assets and liabilities <p>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.</p> <p>Impact:</p> <p>Although the Directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.</p>	1 January 2018
AASB 16	<p><i>Leases</i></p> <p>This standard introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.</p> <p>The main changes introduced by the new standard include:</p>	1 January 2019

F Other information (continued)

F7 New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
	<p>a Recognition of a right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);</p> <p>b Depreciation 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;</p> <p>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;</p> <p>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</p> <p>e Additional disclosure requirements.</p> <p>Impact:</p> <p>Although the Directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.</p>	
AASB 15	<p><i>Revenue from Contracts with Customers</i></p> <p>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</p> <p>Impact:</p> <p>The Directors anticipate that the adoption of AASB 15 will be no impact on recognition of amounts in the Group's financial statements, there will be additional disclosures required.</p>	1 January 2018
AASB 2014-1	<p><i>Amendments to Australian Accounting Standards (Part E)</i></p> <p>Part E of this Standard defers the application date of AASB 9: Financial Instruments (December 2010) to annual reporting periods beginning on or after 1 January 2018. This part also makes consequential amendments to hedge accounting disclosures set out in AASB 7: Financial Instruments: Disclosures, and to AASB 132: Financial Instruments: Presentation to permit irrevocable designation of "own use contracts" as measured at fair value through profit or loss if the designation eliminates or significantly reduces an accounting mismatch.</p> <p>Impact:</p> <p>The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.</p>	1 January 2018

F Other information (continued)

F7 New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
AASB 2014-10	<p><i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i></p> <p>This Standard amends AASB 10: Consolidated Financial Statements with regards to a parent losing control over a subsidiary that is not a “business” as defined in AASB 3 to an associate or joint venture, and requires that:</p> <ul style="list-style-type: none"> a) a gain or loss (including any amounts in other comprehensive income (OCI)) be recognised only to the extent of the unrelated investor’s interest in that associate or joint venture; b) the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and c) any gain or loss from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor’s interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment. <p>The application of AASB 2014-10 will result in a change in accounting policies for transactions of loss of control over subsidiaries (involving an associate or joint venture) that are businesses per AASB 3 for which gains or losses were previously recognised only to the extent of the unrelated investor’s interest.</p> <p>Impact:</p> <p>The Group is currently adhering to this standard and there is no material impact expected on the Group’s financial report.</p>	1 January 2018
AASB 2016-1	<p><i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i></p> <p>This standard clarifies that deferred tax asset recognition on unrealised losses arising from assets measured at fair value in the financial statements should be done after taking in to account any restrictions imposed under tax laws on the source of taxable profits against which the deductible temporary differences can be offset. Further the future taxable profits should not include any amounts that are reversal of the deductible temporary differences.</p> <p>Impact:</p> <p>The Group is currently adhering to this standard and there is no material impact expected on the Group’s financial report.</p>	1 January 2017
AASB 2016-2	<p><i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i></p> <p>The amendment to AASB 107 introduces additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment requires disclosure of changes arising from:</p>	1 January 2017

F Other information (continued)

F7 New accounting standards and interpretations (continued)

Reference and Title	Details of New Standard/Amendment/Interpretation	Application date for the Group
	<ul style="list-style-type: none"> - cash flows, such as drawdowns and repayments of borrowings, and - non-cash changes, such as acquisitions, disposals and unrealised exchange differences. <p>Impact:</p> <p>The Group is currently adhering to this standard and there is no material impact expected on the Group's financial report.</p>	
AASB 2016-5	<p><i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i></p> <p>This standard provides guidance on treatment of vesting conditions in a cash-settled share based payment arrangement that are similar to what has been prescribed for equity settled share based payment arrangements. It also clarifies that, subject to certain exceptions, share based payment transactions with net-settlement feature on account of withholding tax obligations should be classified in entirety as equity settled share based payment.</p> <p>Impact:</p> <p>Since the group does not have a policy of cash-settled share based awards or net-settlement features in equity settled plans, this standard is not expected to impact the Group's financial statements.</p>	1 January 2018


In the Directors' opinion:

- (a) the financial statements and notes set out on pages 50 to 123 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 2016 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 E5 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 E5.

Note (i) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Baocai Zhang
Director

28 February 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YANCOAL AUSTRALIA LTD AND CONTROLLED ENTITIES

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying financial report of Yancoal Australia Ltd (the "Company"), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year (the "Group").

In our opinion:

- a) the financial report of Yancoal Australia Ltd and controlled entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note A(i).

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibility* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters ("KAMs")

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial report for the year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed during the audit
<p>Impairment of certain non-current assets (Note C3)</p> <p>A substantial amount of the Group’s non-current assets (72%) relate to tangible and intangible assets which are subject to an impairment assessment in accordance with AASB 136 <i>Impairment of Assets</i> or AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>These assets include property plant and equipment (note C1), mining tenements (note C2), intangible assets (note C5), receivables from joint venture (note C7), interest bearing loan to associate (note D1) and royalty receivable (note C9) totaling approximately \$5.013 billion.</p> <p>Management’s impairment assessment of these non-current assets are considered a key audit matter as they are often highly judgmental and based on many assumptions, specifically coal prices, operating/capital costs, discount rates, inflation rates and foreign exchange rates, which are affected by expected future market or economic conditions, particularly those in China and Asia.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We assessed management’s determination of the Group’s Cash-Generating Units (“CGUs”); • We evaluated management’s key valuation assumptions and estimates to determine the recoverable value of its assets; • We tested the mathematical accuracy of cash flow models and agreed relevant data to supporting information; • We performed sensitivity analyses on key inputs; and • We assessed the Group’s impairment of assets disclosures.
<p>Taxation (Note B6)</p> <p>The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. The Group estimates its tax liabilities based on the Group’s understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.</p> <p>In addition, significant judgement is required in determining the recoverability of the net deferred tax assets (notes B6(b) and B6(c)). To assess the recoverability of these assets cash flow forecasts are used to ascertain whether the recoverability of these assets is probable.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We reviewed the tax calculations prepared by the Group; • We evaluated the key assumptions used by the Group to determine its tax provisions; • We evaluated the assessment of the recoverability of its deferred tax assets; and • We assessed the Group’s taxation disclosures.

Key Audit Matter	How the matter was addressed during the audit
<p>Financing facilities (Note D2)</p> <p>The Group has secured bank loans, note D2(a) and bank guarantee facilities, note D2(b), (“Financing Facilities”). The Group has to comply with covenants to continue to present the loan liabilities as non-current liabilities and to maintain its bank guarantees in good standing.</p> <p>The Group’s ability to service its Financing Facilities and comply with covenants may impact on the presentation of the financial statements on a going concern basis.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We re-calculated the compliance testing prepared by management of the banking covenants; and • We assessed the plans that management has in place to maintain compliance with the financing facilities covenants in future periods.
<p>Ongoing losses and parent company support (Note A(ix))</p> <p>The Group has incurred a loss after income tax of \$227.1 million (31 December 2015: loss after income tax of \$291.2 million) for the financial year ended 31 December 2016. The Company has been provided with a Letter of Support from its parent, Yanzhou Coal Mining Co Ltd. (“Yanzhou”).</p> <p>Notwithstanding the ongoing losses and the need for support from Yanzhou the financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We reviewed the cash flow forecasts prepared by management for the 12 months from the date of signing the financial statements; • We reviewed the validity of the Letter of Support provided by the Group’s parent, Yanzhou to supporting information including the latest Yanzhou management accounts; • We reviewed the minutes and correspondence of the Company for any revocation of the Letter of Support provided by Yanzhou; and • We assessed the Group’s going concern disclosures.
<p>Watagan Mining Company Pty Ltd (“Watagan”) (Note E1(b)(i))</p> <p>Even though the Group holds 100% of the nominal share capital of Watagan the Directors have assessed that the Group does not control Watagan as it is not able to direct the relevant activities of Watagan. Consequently Watagan was deconsolidated on 31 March 2016.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We reviewed the accounting treatment of the transaction against the accounting standards, particularly AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i>; and • We reviewed the deconsolidation accounting entries; • We reviewed the ongoing governance arrangements of Watagan to assess whether the financiers still control the deconsolidated operations; and • We assessed the Group’s disclosures for the sale of Watagan.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process. In Note A(i), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibilities for the Audit of the Financial Report

Our responsibility is to express an opinion on the financial report based on our audit. Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. The Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 28 of the directors' report for the year ended 31 December 2016. 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 on the Remuneration Report

In our opinion, the Remuneration Report of Yancoal Australia Ltd, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

ShineWing Australia

ShineWing Australia
Chartered Accountants

M. J. Schofield

M J Schofield
Partner

Melbourne, 28 February 2017