You should read the following discussion and analysis in conjunction with our audited consolidated financial statements as at and for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, including the notes thereto, set out in the "Appendix IA – Accountants' Report of the Group". Our audited consolidated financial statements have been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions. Historical results are not indicative of future performance.

The following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. We caution you that our business and financial performance are subject to substantial risks and uncertainties. Our actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided in "Risk Factors" and "Responsibility Statement and Forward-looking Statements".

We also present in this prospectus a discussion and analysis of the financial condition and results of operations of C&A. See "Financial Information of C&A" for further details. The pro forma effects of the C&A Acquisition, along with certain other transactions as described in more detail in this "Financial Information" section, are set out in "Appendix IIB – Unaudited Pro Forma Financial Information of the Enlarged Group".

OVERVIEW

We are Australia's largest pure-play coal producer based on aggregate Coal Reserves and marketable coal production, and have been listed on the ASX since 2012. Of all Australian coal producers, we rank third on both these aforementioned metrics, behind only Glencore and BHP. We have ownership interests in, and operate, five mine complexes across New South Wales and Queensland and manage five others across New South Wales, Queensland and Western Australia.

Our principal business activity is the production of thermal and metallurgical coal for use in the power generation and steel industries in Asian markets. On an ex-mine basis, in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our average selling price for thermal coal was A$68, A$71, A$102, A$90 and A$117 per tonne, respectively, and our average selling price for metallurgical coal was A$100, A$106, A$165, A$174 and A$191 per tonne, respectively. Total ex-mine sales volume in the same periods was 8.1 Mt, 8.8 Mt, 15.5 Mt, 4.9 Mt and 13.8 Mt for thermal coal, respectively, and 5.3 Mt, 3.3 Mt, 3.8 Mt, 1.3 Mt and 2.4 Mt for metallurgical coal, respectively.

In contrast to coal companies that are currently listed on the Hong Kong Stock Exchange, all of the coal we produce is sold for export to customers located overseas, whether directly, through overseas traders or through other Australian coal companies. During the Track Record Period, our largest jurisdictions by revenue were the South Korea, the PRC, Singapore and Japan. We had revenue of A$1,319 million, A$1,238 million, A$2,601 million, A$832 million and A$2,347 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, and a loss after income tax of A$291 million, A$227 million and A$14 million in 2015 and 2016 and the six months ended 30 June 2017, respectively, and a profit after income tax of A$246 million and

A$361 million in 2017 and the six months ended 30 June 2018, respectively. The increases in 2017 and the six months ended 30 June 2018 were largely attributable to the C&A Acquisition, the Moolarben expansion and a substantial increase in coal prices.

BASIS OF PRESENTATION

Our consolidated financial statements have been prepared in accordance with IFRS and on a going concern basis. All financial information presented in this section relates to the historical audited financial information of the Group, unless indicated otherwise as being pro forma financial information. In addition, due to significant acquisitions, disposals and deconsolidation which have taken place since the beginning of the Track Record Period (as described in more detail below), this historical financial information is not necessarily indicative of the Group's current financial performance and position, and results from earlier periods may not be comparable to those from later periods going forward.

All sales and production volume data in this section is presented on an attributable basis, unless indicated otherwise as being presented on a 100% basis.

ACQUISITIONS, DISPOSALS AND DECONSOLIDATION

This discussion and analysis should be reviewed in the context of certain material acquisitions, disposals and deconsolidation of mines and other assets and interests that we have undertaken during the Track Record Period. These are described below. In addition, the pro forma effects of the C&A Acquisition, Glencore Transaction and Warkworth Transaction, each as described in further detail below, are presented in "– *Pro Forma Financial Information of the Enlarged Group*" and Appendix IIB to this prospectus.

C&A Acquisition

On 1 September 2017, we completed the C&A Acquisition, for which the consideration was US$2.69 billion, comprising US$2.45 billion cash payable on completion, US$240 million in future non-contingent royalty payments over five years following completion, and a coal price-linked contingent royalty (with further post-closing adjustments). On completion, we acquired:

(i) interests in two of Australia's leading tier-one large-scale, long-life and low-cost coal mines located in the Hunter Valley region of New South Wales, including:

  (a) a 67.6% interest in the HVO mine; and

  (b) an 80.0% interest in the Mount Thorley mine and a 55.6% interest in the Warkworth mine, which are located adjacent to each other and are operationally integrated as MTW; and

(ii) a 36.5% interest in PWCS, which provides the export infrastructure for the acquired mines.

Prior to its acquisition by us, C&A itself had disposed of certain of its mining operations in 2016, including interests in projects located in Bengalla and Mount Pleasant, and undertook a restructuring of its interest in HVO. As a result, the financial information of C&A as disclosed in "*Financial Information of C&A*" is presented on a carve-out basis as if such interests were disposed of on 1 January 2015. However, the audited consolidated financial statements of C&A as disclosed in the Accountants' Report of C&A as set out in Appendix IB to this prospectus are presented without the carve-outs applied, save as indicated in note 36 therein.

The C&A Acquisition contributed to a substantial increase in our total assets from A$7,660 million as at 31 December 2016 to A$11,914 million as at 30 June 2018. In addition, we began consolidating the profit and loss accounts of C&A from 1 September 2017, the date of completion of the C&A Acquisition, and our results of operations for 2017 and the six months ended 30 June 2018 reflect the consolidation of C&A's results from 1 September 2017 to 30 June 2018. This contributed to the increase in our total revenue from A$1,238 million in 2016 to A$2,601 million in 2017, and our profit after income tax of A$246 million in 2017 compared to a loss after income tax of A$227 million in 2016. Similarly, our total revenue increased from A$832 million in the six months ended 30 June 2017 to A$2,347 million in the six months ended 30 June 2018, and we had a loss after income tax of A$14 million and a profit after income tax of A$361 million in the same periods, respectively.

Glencore Transaction

On 4 May 2018, we completed the Glencore Transaction by selling a 16.6% interest in the HVO mine to Glencore, reducing our interest in the unincorporated HVO JV from 67.6% to 51% and resulting in a 51%:49% unincorporated JV between us and Glencore. Glencore acquired its 49% interest for consideration of US$1,139 million, of which (i) US$710 million was paid to HVOR for its 32.4% interest in HVO and (ii) US$429 million (with further post-closing adjustments) was paid to us for a 16.6% interest in HVO. Glencore will also pay us a 27.9% share of US$240 million of future non-contingent royalty payments and 49% of coal price-linked royalty payments associated with HVO, which are payable by us to Rio Tinto pursuant to the terms of the C&A Acquisition agreements. HVOR is wholly owned by Mitsubishi Development Pty Ltd. ("**MDP**"), which exercised its tag-along right in connection with the C&A Acquisition.

We classified our 16.6% interest in HVO to be sold to Glencore as assets held for sale as at 31 December 2017, based on our determination that the Glencore Transaction was likely to be completed. Following completion, we will continue to account for the financial results of HVO under the proportional consolidation method of accounting. The pro forma income statement of the Enlarged Group for the year ended 31 December 2017 and the six months ended 30 June 2018 gives effect to the Glencore Transaction as if it had been completed on 1 January 2017.

Warkworth Transaction

On 7 March 2018, we completed the Warkworth Transaction to acquire an additional 28.9% interest in the unincorporated Warkworth JV from MDP for consideration of US$230 million, subject to post-closing working capital adjustments, which increased our ownership of the Warkworth JV from 55.6% to 84.5%. The Warkworth Transaction was executed pursuant to a call option that we held in connection with the C&A Acquisition. As MTW is an integrated operation consisting of the Mount Thorley mine (owned by the unincorporated Mount Thorley JV, of which we own 80.0%) and the Warkworth mine (owned by the unincorporated Warkworth JV),

following the Warkworth Transaction, our share of coal production from the MTW mine has increased from 64.1% to 82.9%. We will continue to account for the financial results of the MTW mine under the proportional consolidation method of accounting. As with the Glencore Transaction, the pro forma income statement of the Enlarged Group for the year ended 31 December 2017 and the six months ended 30 June 2018 gives effect to the Warkworth Transaction as if it had been completed on 1 January 2017.

Moolarben Acquisition

We have entered into an agreement with KORES, subject to satisfaction of certain conditions precedent, to acquire a 4% interest in Moolarben for total consideration of A$84 million, which will be paid in four installments through to 31 December 2019 (the "**Moolarben Acquisition**"), and adjusted for the economic benefit of the 4% interest from 15 April 2018 that will flow to us. We intend to finance the Moolarben Acquisition with a portion of the expected proceeds from the Global Offering. See "*Future Plans and Use of Proceeds*" for further details.

The Moolarben Acquisition will raise our interest in the unincorporated Moolarben JV to 85%. As a result, following the completion of the Moolarben Acquisition, we will proportionally consolidate 85% of the financial results of Moolarben. See note 45 to the Accountants' Report of the Group in Appendix IA to this prospectus for certain stand-alone financial information of Moolarben during the Track Record Period.

Watagan Deconsolidation

Effective on and from 31 March 2016, the Company entered into certain financing arrangements with Watagan and the Bondholders. These arrangements involved the issue of the Watagan Bonds, a loan facility agreement between Watagan and the Company, and certain other agreements or deeds ancillary to the issue of the Watagan Bonds.

In accordance with the terms of the Watagan Agreements, our interests in the Ashton, Austar and Donaldson mines were transferred to Watagan for consideration of A$1,363 million (equal to the book value of the three mines at the time). Watagan fully funded the purchase with the Watagan Loan. The outstanding interest and principal of this loan is guaranteed by Yankuang, our ultimate controlling shareholder. Watagan can make prepayments of the outstanding loan balance at any time, and (subject to there being no default continuing and other customary conditions) any amounts prepaid may be redrawn by Watagan in the future for specified permitted purposes. As at 30 June 2018, the loan receivable from Watagan was A$730 million (re-drawable to A$1,363 million).

While we wholly-own Watagan, upon the issuance of the Watagan Bonds, the Bondholders were given the power to nominate two of its three directors, which together with other terms included in the Watagan Agreements resulted in the determination that we had lost accounting control of Watagan. The loss of accounting control resulted in us deconsolidating the financial results of Watagan as a subsidiary from our consolidated financial statements with effect from 31 March 2016. From that time, we began to account for our equity interest in Watagan as an associate rather than a subsidiary. We also designated the value of the Ashton, Austar and Donaldson mines as assets classified as held for sale as at 31 December 2015, pending completion of their transfer to Watagan in early 2016. While Watagan is deconsolidated from our consolidated financial statements for accounting purposes, Watagan remains within our tax consolidated group as a result of our ongoing 100% equity ownership of Watagan.

The determination of loss of accounting control of Watagan is a matter of accounting judgement, which could be subject to review and change. The International Financial Reporting Standards ("**IFRS**") under which we prepare our financial statements requires us to make certain judgements and estimates when preparing our financial statements, and are issued by the International Accounting Standards Board ("**IASB**"), along with other authoritative pronouncements and interpretations. The IASB or other agencies and authorities may not agree with the judgements or estimates applied by us. Moreover, the IASB may amend IFRS and the related pronouncements and interpretations or replace them with new standards, and such amendment or replacement is beyond our control. Any changes to IFRS or to the interpretation of those standards, such as a change which would require us to reconsolidate Watagan's results and financial position ahead of the scheduled date in 2025, may have an adverse effect on our reported financial performance or financial position.

Watagan is required to redeem all of the outstanding Watagan Bonds on the maturity date of 8 January 2025 (if the put option is exercised on or after 1 January 2025, the maturity date would be deferred to 1 April 2025), and may elect to redeem any or all of them commencing from 31 March 2019. Additionally, the Bondholders have a put option that allows them to transfer the issued Watagan Bonds at face value to Yankuang during specified put option exercise windows during the first week of January in each of 2019, 2021, 2023 and 2025. The Bondholders may also exercise the put option after 1 January 2019 while an event of default under the bond terms is subsisting in relation to Watagan or Yankuang. The put option must be exercised by a Bondholder in respect of all (but not some) of its respectively held bonds. If the put option is exercised (i) by UNE, as the instructing Bondholder of the investor syndicate, or (ii) with respect to least 50.1% of the face value of the Watagan Bonds, the put option will be deemed to have been exercised as to all of the bonds. In accordance with the Watagan Agreements, if Yankuang becomes the sole bondholder of the Watagan Bonds following the purchase of the Watagan Bonds by Yankuang consequent to the exercise of the put option, certain bondholder rights including the right to nominate a majority of the board of directors, would terminate, and these rights would revert to the Company as the sole shareholder of Watagan. Watagan would thereafter owe an amount payable to Yankuang for the face value of the put bonds, minus any capitalised interest. Watagan would separately pay to the exercising Bondholders the accrued interest and any capitalised interest on the put bonds.

If (i) Bondholders holding a sufficient proportion of the principal amount of the Watagan Bonds exercise their put option to Yankuang such that Yankuang acquires all of the bonds, (ii) Watagan fully redeems the Watagan Bonds or (iii) certain other events occur (such as a change to the terms and conditions of the Watagan Bonds that gives us the power to nominate the majority of the board of Watagan) that would result in us regaining control of Watagan, we will be required to reconsolidate Watagan as a subsidiary into our consolidated financial statements from the time that control is determined to be regained. We do not currently have any plan or intention to effect the early redemption of the Watagan Bonds.

Upon reconsolidation we will: (i) cease to recognise interest income on the Watagan Loan, which in the year ended 31 December 2017 and the six months ended 30 June 2018 was A$67 million and A$32 million, respectively, as well as forgo the margin recognised under the various service agreements, and de-recognise the Watagan loan receivable, which as at 30 June 2018 was drawn to A$730 million, as these amounts will become intercompany balances and eliminate on consolidation; (ii) recognise an interest expense on the Watagan Bonds (or the Yankuang loan payable if the put option has been fully exercised), which during the year ended 31 December 2017 and the six months

ended 30 June 2018 was A$102 million and A$35 million, respectively, and recognise the fair value of the Watagan Bonds at that time, which as at 30 June 2018 had a book value of A$1,049 million; and (iii) recognise the operating results of Watagan, including the three Watagan Mines, in our statement of profit and loss and recognise the fair value of the assets and liabilities of Watagan (including the Watagan Bonds) on our balance sheet at that time. In 2016 and 2017 and the six months ended 30 June 2017 and 2018, Watagan had loss after tax of A$162 million, A$58 million, A$7 million and A$90 million, respectively. See note 23(a) to the Accountants' Report of the Group in Appendix IA to this prospectus for further stand-alone financial information of Watagan during the Track Record Period.

The loss after tax of A$162 million in 2016 was due in significant part to the Austar mine only commencing longwall mining activities in the Bellbird South area half way through the year following a fatal incident in the Stage 3 area in 2014. The improvement in performance to a loss after tax of A$58 million in 2017 was primarily due to an improvement in coal prices between the periods and a full year of production at Austar, partially offset by an increase in finance costs primarily due to an additional A$30 million of interest owing to the bondholders due to Watagan achieving an EBITDA related threshold. The loss of A$90 million in the six months ended 30 June 2018 was primarily due to a significant reduction in production at the Austar mine due to the occurrence of multiple coal bursts resulting in repeated shutdowns during the period. See "*Risk Factors – We will be required to re-consolidate Watagan once we re-acquire control of it, which could result in adverse consequences to our financial condition and results of operations*" and "*Risk Factors – Multiple coal bursts and other incidents have occurred at the Austar mine which have resulted in property and site damage, production shutdowns and fatalities, and further such incidents and outcomes may occur, including permanent shutdown. Investigations into challenging geological structures at Austar may lead to similar outcomes, including permanent shutdown*".

Since Watagan has thus far been loss-making and, moreover, has incurred ordinary course depreciation and amortisation, the book value of Watagan's net assets has declined since inception and at 30 June 2018 was negative A$311 million as noted in Appendix IA to this prospectus. While the book value decline is not necessarily an indicator of Watagan's fair value, if the fair value of Watagan's net assets is negative (meaning that the value of its assets is lower than the value of its liabilities, including any outstanding loan balances) at the time of reconsolidation, goodwill will be recognised by us. This goodwill will be subject to impairment testing based on the cash generating units to which it is allocated. To the extent that any goodwill recognised cannot be supported by an impairment model, it will be written off by us as a loss on acquisition. Similarly, if prior to reconsolidation, and whilst we recognise a loan receivable from Watagan, there is any such determination of a decline in the fair value of Watagan, this would trigger an impairment assessment of the carrying value of the outstanding balance of the Watagan Loan. As at 30 June 2018, the total assets of the Company were A$11,914 million and the total liabilities of the Company were A$6,649 million, and the total assets of Watagan were A$1,783 million and the total liabilities of Watagan were A$2,094 million. The impact of reconsolidating Watagan as at 30 June 2018, without reflecting any fair value adjustments that may arise on reconsolidation (including the recognition of any potential goodwill as noted above), and after intercompany balance eliminations of A$827 million for both total assets and total liability, would be material. Our gearing ratio (which is calculated as gross debt divided by total equity at the end of the relevant period) would exhibit a material increase from our gearing ratio of 0.81x as at 30 June 2018, primarily due to Watagan's interest-bearing debt and negative equity position as at that date.

During the Track Record Period, Donaldson's remaining Abel underground mine was moved to a care and maintenance phase and feasibility studies have subsequently commenced to explore potential future mining operations. In addition, multiple incidents have recently occurred in Austar's Bellbird South area due to coal bursts and other occurrences. These incidents have resulted in property and site damage and consequent loss of production and shutdowns, including as a result the regulator issuing notices to stop production for periods of time, during the Track Record Period. Ongoing work and investigations are being undertaken by Watagan in respect of the very challenging geological and geotechnical conditions at the Austar mine, including both the Bellbird South and Stage 3 areas that may have a significant adverse impact on future commercial operations, including, potentially, permanent shutdown. See "*Risk Factors – Multiple coal bursts and other incidents have occurred at the Austar mine which have resulted in property and site damage, production shutdowns and fatalities, and further such incidents or outcomes may occur, including permanent shutdown*" for further details.

The future prospects of the Donaldson and Austar mines are therefore uncertain, and will depend upon the work currently being conducted by Watagan and its advisers. If it is determined, by Watagan, that either or both mines are unable to restart operations or return to previously forecast levels of production or there are materially negative changes to other operating assumptions, including coal prices, exchange rates, operating costs or capital expenditure, it is likely that the fair value of these mines, and therefore Watagan, would be reduced materially. In that event, a material impairment charge may be recognised on the Watagan loan receivable, prior to reconsolidation, or any goodwill recognised on reconsolidation. In addition, the Bondholders may be more inclined to exercise the put option which, as described above, will result in the reconsolidation of Watagan. We do not control Watagan and as such are not able to control or predict the amount of any such impairment or the extent of the resulting effect on our financial condition and results of operations, which could be material and adverse.

See "*Risk Factors – We will be required to reconsolidate Watagan once we reacquire control of it, which could result in adverse consequences to our financial condition and results of operations*" for further details.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been, and are expected to continue to be, affected by a variety of factors, including those set forth below:

Demand for Our Coal Products

Our financial results are largely dependent on the demand for thermal and metallurgical coal, which in turn depends on macroeconomic trends, including regional and global economic activity, and the price and availability of alternative forms of energy production. In addition, our customers are located throughout the Asia-Pacific region, with South Korea, the PRC, Singapore and Japan comprising our largest jurisdictions by revenue during the Track Record Period. Consequently, major regional events which may affect coal supply and demand, such as Cyclone Debbie adversely affecting coal production in Queensland in March 2017, a severe 2017-2018 winter season in the PRC which increased demand and changes in coal supply and consumption policies in the PRC and elsewhere, may result in significant fluctuations in demand and, in turn, price volatility.

Thermal coal is primarily used in electricity generation and its end users are typically power and utilities companies. According to the Industry Report, aggregate electricity generation from coal in the PRC, Japan and South Korea, which are some of

our key markets in the Asia-Pacific region, increased from 4,389 billion kWh in 2015 to 4,625 billion kWh in 2017, representing a CAGR of 2.7%. This has partially contributed to an increase in aggregate demand for imported thermal coal in these countries from 395 Mt in 2015 to 458 Mt in 2017, representing a CAGR of 7.6%.

Metallurgical coal is primarily used to produce coke for blast furnace steel production. End users of metallurgical coal are thus typically steel plants. According to the Industry Report, aggregate crude steel production in the PRC, Japan and South Korea increased from 979 Mt in 2015 to 1,007 Mt in 2017, representing a CAGR of 1.5%. This has partially contributed to an increase in aggregate demand for imported metallurgical coal in these countries from 153 Mt in 2015 to 176 Mt in 2017, representing a CAGR of 7.6%.

We also sell coal to customers in the commodities trading business, who purchase our coal for trading purposes or to on-sell the coal to their end customers. Commodities traders are similarly exposed to global and regional demand trends in the coal market. As a result, fluctuations in their demand for coal products may directly affect their purchases from us. We sell to coal traders primarily to (i) enable access into markets where we have no direct relationship with end users and (ii) provide flexibility to sell any short-term unsold positions. Once we have developed relationships with new end users, we may opt to sell to them directly rather than through coal traders. For example, during the Track Record Period, we implemented a sales strategy of shifting away from coal traders in Singapore to sell directly to end users, which resulted in an overall decrease in the percentage of revenue attributable to customers located in Singapore, though total revenue from Singapore increased in line with our overall sales growth.

In November 2018, China imposed a quota on imports of coal, following which China has halted coal imports for the remainder of the year. We believe that this development will not have a material impact on us. However, if the Chinese government were to impose stricter import quotas for 2019 or future periods, our revenues and results of operations in future periods could be adversely affected, unless we are able to find alternative destinations for the coal we designate for export to China.

Price and Sales Volume of Coal

Our revenue is determined by the sale price and sales volume of our coal. The sale price depends on market demand and macroeconomic trends as discussed above. The table below sets forth, for the periods indicated, a breakdown of our ex-mine[(1)] sales volume and average selling price between thermal and metallurgical coal[(2)], presented on an attributable basis:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
Thermal coal					
Average selling price (A$ per tonne)	68	71	102	90	117
Sales volume (Mt)	8.1	8.8	15.5	4.9	13.8
Total ex-mine thermal coal revenue (A$ million)	548	617	1,585	447	1,607
Average Newcastle 6,000 NAR spot price (A$ per tonne)[(3)]	76	90	115	107	135

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
Metallurgical coal					
Average selling price (A$ per tonne)	100	106	165	174	191
Sales volume (Mt)	5.3	3.3	3.8	1.3	2.4
Total ex-mine metallurgical coal revenue (A$ million)	526	350	619	224	468
Average premium hard-coking coal FOB spot price (A$ per tonne)(3)	118	195	246	240	273
Total coal					
Average selling price (A$ per tonne)	80	80	114	108	128
Sales volume (Mt)	13.4	12.1	19.3	6.2	16.2
Total ex-mine coal revenue (A$ million)	1,074	967	2,204	671	2,075
Coal purchases(4)	214	232	355	164	156
Other(5)	–	–	64	–	19
Total coal revenue from customers	1,288	1,199	2,623	835	2,250

Notes:

(1) Ex-mine coal represents coal directly produced at our mines, and excludes coal purchased from other parties.

(2) Includes our attributable interest in production from (a) in 2015, the Moolarben, Yarrabee, Stratford Duralie and Watagan mines, (b) in 2016, the Moolarben, Yarrabee, Stratford Duralie and Watagan mines (until 31 March 2016), (c) in 2017, the Moolarben, Yarrabee, Stratford Duralie, and C&A mines (HVO (67.6%) and MTW (64.1%), from 1 September 2017) and (d) in 2018, the Moolarben, Yarrabee, Stratford Duralie, and C&A mines (HVO (67.6% until 30 April 2018 and 51% thereafter) and MTW (64.1% until 28 February and 82.9% thereafter). Does not include the results of Middlemount, which is an incorporated joint venture in which we hold a 49.9997% interest. For accounting purposes, we equity account for our share of the profit or loss after tax of Middlemount as a single line item.

(3) According to the Industry Report. The A$ per tonne is calculated at an US$:A$ foreign exchange rate of 1.33, 1.35, 1.30, 1.33 and 1.33 in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively. The average premium HCC price represents the most readily-available index price for metallurgical coal.

(4) Represents sales made as part of our coal blending strategy attributable to coal purchased from related parties and third parties and any increase or decrease in ex-mine revenue recognised on coal purchased from our mines. See "– *Description of Major Line Items in Our Consolidated Statements of Profit or Loss and Other Comprehensive Income – Coal Purchases*" for further details.

(5) Other coal revenue mainly represented acquisition accounting fair value adjustments with respect to the below market customer contract with BLCP, which we took on as part of the C&A Acquisition and which obligates us to deliver coal to BLCP at a price that we deem to be below market relative to our long-term coal price forecast.

Sales price

Regional and global trends in the demand for coal, taken together with coal supplies, are key drivers of prevailing market prices for coal. According to the Industry Report, in general, the majority of export coal is priced starting from supply contracts negotiated between Japanese end users (primarily utilities companies for thermal coal and steel mills for metallurgical coal) and Australian coal producers, from which the benchmark prices are established. The supply contracts have historically been negotiated on an annual basis but have more recently shifted to a quarterly basis. Coal sales are then priced by reference to this benchmark and adjusted for quality and loading port costs. In 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our average selling price per tonne for thermal coal was A$68, A$71, A$102, A$90 and A$117, respectively, while our average selling price per tonne for metallurgical coal was A$100, A$106, A$165, A$174 and A$191, respectively. While we did not experience any significant fluctuations in our average selling prices in 2015 and 2016, we had a significant increase in 2017 and the six months ended 30 June 2018, primarily due to:

(i) supply-side measures implemented by the PRC in late 2016 to curb domestic coal production, which had the effect of supporting global coal prices. This resulted in a significant increase in the global price for both thermal and metallurgical coal. Thermal prices increased from approximately US$50 per tonne to US$100 per tonne and semi-soft coking coal increased from approximately US$70 per tonne to US$130 per tonne. These developments contributed to increases in our prices towards the end of 2016 and for much of the first quarter of 2017;

(ii) Cyclone Debbie which struck Queensland in March 2017, causing a significant supply disruption in thermal and metallurgical coal;

(iii) industrial action at Glencore's Australian mine sites which supported the thermal coal price;

(iv) long vessel queues at Australia's Queensland ports, which supported the metallurgical coal price; and

(v) low-ash thermal prices continued to strengthen in the first half of 2018 due to a significant tightness in supply out of NSW together with increased demand, while high-ash thermal prices have been supported by higher demand from India.

These factors were partially offset by:

(i) environmental reform policies and the later easing of supply-side restrictions implemented by the Chinese government during part of 2017, which resulted in certain price decreases;

(ii) a softening of prices in the third quarter of 2017, though global prices continued to remain at above US$70 per tonne for thermal coal and above US$100 per tonne for semi-soft coking coal; and

(iii) towards the end of the first half 2018, the Chinese government re-implemented import restrictions on both thermal and metallurgical coal, which led to a decrease in demand.

During the Track Record Period, we largely priced our coal products by reference to the appropriate market price or benchmark, whilst also taking into consideration the quality of the coal relative to the market benchmark. Our customer contracts typically set out the coal sales amount by volume, with price determined either on a quality-adjusted fixed or index-linked price. Over the Track Record Period, we have sought to control our exposure to price volatility by targeting more end users to develop direct business relationships and diversify our customer base, while shifting away from selling to coal traders or engaging the spot market, which is more sensitive to price fluctuations. As a result, our customer base became increasingly dispersed over the Track Record Period. In 2015, 2016 and 2017 and the six months ended 30 June 2018, our top five customers accounted for 47.8%, 38.8%, 32.3% and 33.8% of our revenue, respectively, in the aggregate, and our top three customers accounted for 39.5%, 29.1%, 21.7% and 26.5% of our revenue, respectively, in the aggregate. No single customer represented more than 8.5% of our total revenue in 2017 or 10% in the six months ended 30 June 2018. See "*Business – Customers*" for further details.

The table below sets forth, for the periods indicated, a sensitivity analysis of the impact of hypothetical fluctuations in the average selling price of our coal products on our revenue and profit/loss after tax, assuming a 7% state government royalty and a 30% corporate income tax rate, and excluding the results of Middlemount:

	Year ended 31 December			**Six months ended 30 June**	
	2015	**2016**	**2017**	**2017**	**2018**
			A$ million		
Thermal coal					
Increase in ASP of 5%					
Revenue	27	31	79	22	80
Profit/loss after tax	18	20	52	15	52
Decrease in ASP of 5%					
Revenue	(27)	(31)	(79)	(22)	(80)
Profit/loss after tax	(18)	(20)	(52)	(15)	(52)
Increase in ASP of 10%					
Revenue	55	62	159	45	161
Profit/loss after tax	36	40	103	23	105
Decrease in ASP of 10%					
Revenue	(55)	(62)	(159)	(45)	(161)
Profit/loss after tax	(36)	(40)	(103)	(29)	(105)
Metallurgical coal					
Increase in ASP of 5%					
Revenue	26	18	31	11	23
Profit/loss after tax	17	11	20	7	15
Decrease in ASP of 5%					
Revenue	(26)	(18)	(31)	(11)	(23)
Profit/loss after tax	(17)	(11)	(20)	(7)	(15)

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Increase in ASP of 10%					
Revenue	53	35	61	22	47
Profit/loss after tax	34	23	40	15	30
Decrease in ASP of 10%					
Revenue	(53)	(35)	(61)	(22)	(47)
Profit/loss after tax	(34)	(23)	(40)	(15)	(30)
Total coal					
Increase in ASP of 5%					
Revenue	54	48	110	34	104
Profit/loss after tax	35	31	72	22	68
Decrease in ASP of 5%					
Revenue	(54)	(48)	(110)	(34)	(104)
Profit/loss after tax	(35)	(31)	(72)	(22)	(68)
Increase in ASP of 10%					
Revenue	107	97	220	67	208
Profit/loss after tax	70	63	144	44	135
Decrease in ASP of 10%					
Revenue	(107)	(97)	(220)	(67)	(208)
Profit/loss after tax	(70)	(63)	(144)	(44)	(135)

Sales volume

In 2015, 2016, and 2017 and the six months ended 30 June 2017 and 2018, our sales volume for thermal coal was 8.1 Mt, 8.8 Mt, 15.5 Mt, 4.9 Mt and 13.8 Mt, respectively, while our sales volume for metallurgical coal was 5.3 Mt, 3.3 Mt, 3.8 Mt, 1.3 Mt and 2.4 Mt, respectively, in each case exclusive of sales of purchased coal. Thermal coal sales volume increased during the Track Record Period due to the C&A Acquisition in 2017 and the expansion of Moolarben from 9.0 Mtpa ROM in 2015 to 17.0 Mtpa ROM in 2018 (on a 100% basis). Metallurgical coal sales volume decreased in 2016 due to the deconsolidation of the Austar, Ashton and Donaldson mines and increased in 2017 and the six months ended 30 June 2018 with the C&A Acquisition. Our coal sales volume is largely dependent on our production volume and transportation capacity. In particular, our ability to increase our sales volume in line with our planned growth strategies relies on efficiently increasing both our production capacity and transportation capacity over time to respond suitably to coal demand. Conversely, any bottlenecks in respect of either capacity could restrict our growth potential.

Production volume

We produced coal at five mine complexes (HVO (which is operated as an unincorporated joint venture with Glencore), MTW, Moolarben, Yarrabee and Stratford Duralie) as at 30 June 2018, all located across Australia. As at 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our total saleable

production volume for thermal coal was 8.1 Mt, 8.8 Mt, 15.5 Mt, 5.2 Mt and 14.4 Mt, respectively, while our total saleable production volume for metallurgical coal was 5.2 Mt, 3.3 Mt, 3.8 Mt, 1.3 Mt and 2.6 Mt, respectively. Similar to our sales volumes, our production volume has historically grown organically, through a mix of capital investment in the expansion and upgrade of existing mines, as well as inorganically, through significant acquisitions that we have undertaken, particularly during the Track Record Period. See "– *Acquisitions, Disposals and Deconsolidation*".

With respect to growth through acquisitions, during the Track Record Period we most notably acquired C&A in September 2017 for US$2.69 billion, which included interests in two mine complexes. The C&A Acquisition increased our total ROM production volume by approximately 152% based on 2017 annual ROM production. We intend to continue to expand our production capacity both organically and inorganically in the future, which will require significant further investments. See "*Business – Our Business Strategies*" and "*Risk Factors – We may experience difficulty in integrating our acquisitions, which could result in a material adverse effect on our business, financial condition and results of operations"* for further details.

Transportation capacity

We primarily rely on rail and port networks in Australia to transport our products to our customers. The rail networks that we utilise include:

- the Hunter Valley rail network to transport coal from the HVO, MTW, Moolarben and Stratford Duralie mines to PWCS and NCIG;
- the Blackwater rail network to transport coal from the Yarrabee mine to WICET and RGTCT; and
- with respect to the Middlemount JV, the Goonyella railway system to transport coal from the Middlemount mine to APCT.

In 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, we transported 13.3 Mt, 12.0 Mt, 19.3 Mt, 6.5 Mt and 16.6 Mt, respectively, of coal products through the rail networks available to us (excluding Middlemount). Over the Track Record Period, we did not experience any shortage of railway capacity for transportation of our coal. We do not have any priority or exclusivity over railway utilisation. Given the location of the mines, the bulk nature of coal and the export nature of all of our coal, we expect to continue to rely extensively on rail networks for our coal transportation needs to port in respect of both maintaining support for our current transportation needs (including the C&A mines that we acquired) as well as any future transportation needs arising out of mines under exploration or development coming into production.

We have contracted five port terminals in three locations in Australia (two in Queensland and one in New South Wales) for our freight transport needs. Our total freight allocation (on a 100% basis including Middlemount) across PWCS, NCIG, WICET, RGTCT and APCT was 60.8 Mtpa as at both 30 June 2018 and 31 December 2017, 32.6 Mtpa as at 31 December 2016 and 28.9 Mtpa as at 31 December 2015. As at the Latest Practicable Date, we were also a 30.0% equity shareholder in PWCS, a 27.0% shareholder in NCIG and held 9.38% voting entitlements in WICET. We believe that shareholding in ports generally provides us with better access to capacity commitments from these ports. As our mines under exploration or development enter production, we intend to increase our freight allocation by contracting for additional capacity with these ports. We may also identify additional ports to contract with, depending on business needs, location and other commercial considerations.

We currently have excess port capacity commitments across our NSW operations (where the substantial majority of our coal production volume is generated), which allows us to increase production volume at our existing mines and bring new mines online in the near future without experiencing significant bottlenecks in our port capacity. However, excess capacity also results in incurred costs for us. We generally contract for both our port and rail capacity under long-term take-or-pay contracts, under which we are required to pay for the contracted port or rail tonnage regardless of whether it is utilised. Unused port or rail capacity can arise as a result of circumstances including insufficient production from any given mine, or an inability to transfer the unused capacity due to a lack of demand from third parties. As a result, we constantly aim to achieve a sustainable balance between our contracted transportation capacity (taking into account potential fluctuations in production volume) and our costs incurred for excess capacity. With this aim in mind, in 2017 we reduced our take-or-pay exposure to A$65 million (including take-or-pay contracts obtained under the C&A Acquisition) from A$74 million in 2016 (on a 100% basis including Middlemount) by (i) increasing our production, particularly at Moolarben, and (ii) utilising opportunities to trade port capacity commitments with other coal producers who need additional capacity from time to time on a spot basis. In the medium to long-term, we aim to reduce our overall take-or-pay exposure in NSW by continuing to seek opportunities for organic growth and capture savings as a result of economies of scale, as well cancelling the long-dated rollovers on certain contracts, which reduces our overall port capacity in the longer term to align more closely with our actual expected production. See "*– Description of Major Line Items in Our Consolidated Statements of Profit and Loss and Other Comprehensive Income – Transportation*" for further details on our transportation costs and a sensitivity analysis of hypothetical fluctuations in our transportation costs during the Track Record Period.

See "*Business – Infrastructure, Transportation and Logistics*" and "*Risk Factors – Fluctuations in transportation costs and disruptions to our railway and port linkages could disrupt our coal deliveries and adversely affect our business, financial condition and results of operations*" for further details.

Operating and Production Costs

Our all-in total production costs, which include cash and non-cash operating costs, represent costs directly attributable to the production, transportation and selling of coal as well as indirect corporate costs, in particular corporate employee costs, but excluding transaction costs incurred on the C&A Acquisition and in connection with the Listing. Cash operating costs comprise the cost of raw materials and consumables used, employee benefits, contractual services and plant hire and transportation. Non-cash operating costs include depreciation and amortisation. See "*– Description of Major Line Items in Our Consolidated Statements of Profit or Loss and Other Comprehensive Income*" for further details on the nature of our cash operating costs and "*– Review of Historical Results of Operations*" for a discussion of the year-on-year changes and trends in these line items. Our total production cost per sales tonne, excluding royalties, was A$84, A$74, A$76, A$77 and A$81 in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively. The decrease in 2016 was primarily due to the deconsolidation of the Watagan underground mines and reduced operations at Stratford Duralie, together with ongoing cost saving initiatives across all sites. The increase in 2017 and 2018 was primarily due to the additional depreciation and amortisation of property, plant and equipment and mining tenements recognised on the C&A Acquisition and an increase in raw materials and consumables used.

Given the significant amounts of our production costs, our profitability is directly affected by our ability to control them. At the same time, we must balance cost considerations with ensuring that we have a reliable and adequate supply of materials and manpower in order to carry out our operations at the scale that we seek to achieve or maintain. These costs may fluctuate significantly due to market or other forces which may be out of our control. For example, our suppliers for raw materials and consumables may experience changes in their own operating or supply costs, which they may pass on to us. Similarly, changes in macroeconomic conditions may affect the cost and availability of labour, which, depending on our own staffing needs as we adjust our operating scale through capital expenditure, acquisitions and disposals, may result in us incurring higher average labour costs in certain periods than others. See "*Risk Factors – Our coal production is subject to conditions and events beyond our control that could result in high expenses and decreased supply*" for further details.

The table below sets forth, for the periods indicated, a breakdown of our total production costs:

	Year ended 31 December			**Six months ended 30 June**	
	2015	**2016**	**2017**	**2017**	**2018**
			A$ million		
Cash operating costs					
Raw materials and consumables used	213	187	349	109	337
Employee benefits	229	188	302	102	254
Transportation	261	267	312	122	274
Contractual services and plant hire	218	121	241	69	196
Cash operating costs (excluding royalties)	921	763	1,204	402	1,061
Royalties	77	71	173	53	161
Total cash operating costs	998	834	1,377	455	1,222
Non-cash operating costs					
Depreciation and amortisation	200	133	256	80	244
Total production costs	1,198	967	1,633	535	1,466
Total production costs (excluding royalties)	1,121	896	1,460	482	1,305

During the Track Record Period, the overall increase in total production costs (excluding royalties) was in line with the overall increase in production volume and revenue, particularly when taking into account the Moolarben expansion and the operating results of C&A. Our production costs in the future are likely to continue to be driven by material changes in the amount of coal produced and to a lesser extent by the cost per tonne produced.

The table below sets forth, for the periods indicated, a breakdown of our total production costs per sales tonne, excluding the impact of movements in coal inventory:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	A$ per tonne				
Cash operating costs					
Raw materials and consumables used	16	15	18	18	21
Employee benefits	17	16	15	16	16
Transportation	20	22	16	20	17
Contractual services and plant hire	16	10	13	11	12
Cash operating costs (excluding royalties)	69	63	62	65	66
Royalties	6	6	9	9	10
Cash operating costs	75	69	71	74	76
Non-cash operating costs					
Depreciation and amortisation	15	11	14	12	15
Total production costs	90	80	85	86	91
Total production costs (excluding royalties)	84	74	76	77	81

During the Track Record Period, our total production costs (excluding royalties) decreased from A$84 per saleable tonne in 2015 to A$81 per saleable tonne in the six months ended 30 June 2018. Our cash operating cost per sales tonne before royalties was A$69, A$63, A$62, A$65 and A$66 in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively. The decrease in 2016 was primarily due to the deconsolidation of the Watagan underground mines and reduced operations at Stratford Duralie, together with ongoing cost saving initiatives across all sites. Between 2016 and 2017, there was a slight decrease from A$63 to A$62 per sales tonne, and between the six months ended 30 June 2017 and the six months ended 30 June 2018 there was a slight increase from A$65 to A$66 per sales tonne. Cash operating costs between these periods remained relatively unchanged despite an increase in market-driven costs of consumables such as diesel and electricity and despite the fact that in each of the former periods Moolarben (which is a low cost mine that is in the first quartile

of the cash cost curve) had a materially high weighting in our overall portfolio. While HVO and MTW are higher operating cost mines than Moolarben, they still fall within the second quartile of the cash cost curve (and rank higher than Moolarben on the cash margin curve) and as such are considered low cost mines. See "*Industry Overview – Competitive Landscape – Cost Competitiveness Analysis*". Our total production costs in the future are likely to continue to be driven by material changes in the amount of coal produced at each site, further synergies from the C&A Acquisition and further cost saving initiatives.

The table below sets forth, for the periods indicated, a breakdown of our total and per tonne production costs by: (i) workforce employment; (ii) consumables; (iii) fuel, electricity, water and other utilities services; (iv) contractual services and plant hire, (v) on and off-site administration; (vi) environmental protection and monitoring; (vii) transportation of workforce; (viii) product marketing and transport; (ix) non-income taxes, royalties and other governmental charges; and (x) contingency allowances, in each case as applicable.

	Year ended 31 December			**Six months ended 30 June**	
	2015	**2016**	**2017**	**2017**	**2018**
			A$ million		
Cash operating costs					
Workforce employment	227	184	299	100	253
Consumables	149	138	248	76	227
Fuel, electricity, water and other utilities services	64	49	101	33	109
Contractual services and plant hire	195	110	213	62	181
On and off site administration	17	14	22	5	12
Environmental protection and monitoring	8	5	9	4	5
Transportation of workforce	–	–	–	–	–
Product marketing and transport	261	267	312	122	274
Non-income taxes, royalties and other government charges	77	71	173	53	161
Contingency allowances	–	–	–	–	–
Total cash operating costs	998	838	1,377	455	1,222

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	A$ per tonne				
Cash operating costs					
Workforce employment	17	15	15	16	16
Consumables	11	11	13	12	14
Fuel, electricity, water and other utilities services	5	4	5	5	7
Contractual services and plant hire	15	9	12	10	11
On and off site administration	1	1	1	1	1
Environmental protection and monitoring	1	1	–	1	–
Transportation of workforce	–	–	–	–	–
Product marketing and transport	19	22	16	20	17
Non-income taxes, royalties and other government charges	6	6	9	9	10
Contingency allowances	–	–	–	–	–
Total cash operating costs	75	69	71	74	76

Workforce employment

Workforce employment primarily consists of salaries, wages, benefits, short-term and long-term incentives and employee onboarding costs for all our employees. Workforce employment amounted to A$227 million, A$184 million, A$299 million, A$100 million and A$253 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, with per tonne workforce employment costs of A$17, A$15, A$15, A$16 and A$16, respectively. The decrease in per tonne costs was primarily due to the deconsolidation of the Watagan Mines, the expansion of Moolarben and the C&A Acquisition.

Consumables

Our consumables include maintenance, explosives, tyres and other general consumables. Consumables used amounted to A$149 million, A$138 million, A$248 million, A$76 million and A$227 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, with per tonne consumables used of A$11, A$11, A$13, A$12 and A$14, respectively. The increase in per tonne costs in 2017 and the six months ended 30 June 2018 was primarily due to larger truck fleets at the acquired C&A mines due to longer haulage distances.

Fuel, electricity and water

Fuel, electricity and water amounted to A$64 million, A$49 million, A$101 million, A$33 million and A$109 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, with per tonne fuel, electricity and water costs of A$5, A$4, A$5, A$5 and A$7 over the same period with the increase in the six months ended 30 June 2018 primarily due to an increase in diesel and electricity prices.

Contractual services and plant hire

Contractual services and plant hire primarily consists of contractors, including contract mining, consultants and equipment hire costs, but excluding contracted service expenses for environmental protection and monitoring. These costs amounted to A$195 million, A$110 million, A$213 million, A$62 million and A$181 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, with per tonne costs of A$15, A$9, A$12, A$10 and A$11, respectively. The decrease in 2016 was primarily due to the deconsolidation of the Watagan mines and the shift in Stratford Duralie's operations from outsourced contractual management to an insourced owner-operator model. The increase in 2017 was primarily due to the acquisition of C&A mines which utilise a significant number of contractors and hire equipment. We believe that contractual services and plant hire costs are most appropriately categorised as a separate component of cash operating costs. In particular, contractual services and plant hire costs include contractors who are not full-time workforce employees nor administrative in nature, as well as equipment hires which are not consumables nor used for transportation.

On and off site administration

On and off site administration primarily consists of administrative expenses, including legal, accounting and tax and other professional service fees, and excluding transaction costs incurred on the C&A Acquisition and in connection with the Listing. These costs amounted to A$17 million, A$14 million, A$22 million, A$5 million and A$12 million in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively, with per tonne on and off site administration costs of A$1 in each period.

Product marketing and transport

Product marketing and transport costs consist of our transport costs incurred primarily in connection with the cost of transporting our coal products to customers, including handling and delivery of coal from our mines to the relevant port via rail for export to overseas end customers (typically on a FOB basis). Our transportation costs amounted to A$261 million, A$267 million and A$312 million, A$122 million and A$274 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, with per tonne costs of A$19, A$22, A$16, A$20 and A$17, respectively. The increase in per tonne costs in 2016 was primarily due to an increase in take-or-pay port commitments. The decrease in 2017 and the six months ended 30 June 2018 was primarily due to lower average rail costs and spreading our take-or-pay port exposure across a larger transport volume.

Non-income taxes, royalties and other government charges

Non-income taxes, royalties and other government charges consist of royalties paid to the governments of New South Wales and Queensland on coal produced in these states. These royalties amounted to A$77 million, A$71 million, A$173 million, A$53 million and A$161 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, with per tonne costs of A$6, A$6, A$9, A$9 and A$10, respectively. The increase in 2017 and the six months ended 30 June 2018 was primarily due to the increase in average selling prices and the higher volume of coal produced in open-cut mines in part due to the C&A Acquisition. Royalties are determined on an ad valorem basis by reference to the value of the coal sold and the type of mine, with open-cut mines generally having higher royalty rates than underground mines.

Capital Expenditure

We undertake both sustaining and expansionary capital expenditure. Sustaining capital expenditure is generally undertaken to maintain our current level of production for existing operations. Expansionary capital expenditure includes growth projects with the aim of increasing our production. Capital expenditure in respect of mine expansions and business improvement projects was A$159 million, A$237 million, A$165 million, A$87 million and A$19 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively. This was mainly attributable to our Moolarben mine, which during the Track Record Period has expanded from a 9.0 Mtpa ROM mine in 2015 to 14.7 Mtpa in 2017, and which we intend to further expand to 17.0 Mtpa ROM in 2018 (each on a 100% basis). Capital expenditure investments in Moolarben primarily consisted of developing and expanding the open cut portions of the mine as well as the underground complex, together with investments in the equipment needed. We undertake expansionary capital expenditure following a strict business case analysis, including in respect of viability, source and cost of funds and the timing and sensitivity to movements in coal prices. We also incurred exploration expenditure of A$2.7 million, A$0.4 million, A$2.8 million, A$1.4 million and A$1.9 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, in relation to mines in operation, which we capitalised. See "– *Capital Expenditure*" for a breakdown of our total capital expenditure during the Track Record Period.

The costs associated with capital expenditure plans could have a significant impact on our financial condition and results of operations, particularly if we are unable to generate sufficient coal production and sales to recover our investment or generate a profit. See "*Risk Factors – We may not be able to meet our capital expenditure requirements or secure additional financing on favourable terms, whether from external sources or our major shareholders, in the future*" for further details.

Financing Arrangements and Interest Rate Movements

We operate in a capital-intensive industry that requires a significant investment of funds. We have historically relied heavily on borrowings from banks and related parties, including Yanzhou, our direct Controlling Shareholder, for these funding needs. As at 31 December 2015, 2016 and 2017 and 30 June 2018, our total interest-bearing loans and lease liabilities amounted to A$4,732 million, A$4,950 million, A$4,699 million and A$4,284 million, respectively, of which the majority were subject to floating interest rates based on US$ LIBOR and secured against corporate guarantees from Yanzhou and certain of our assets. See "– *Indebtedness*" for further details. Our finance costs, which primarily consist of interest expenses on our borrowings as well as bank fees and other charges associated with those borrowings (which are classified under other operating

expenses) amounted to A$278 million, A$323 million, A$403 million, A$154 million and A$214 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, for an average cost of funds of 6.45%, 7.29%, 7.93%, 7.85% and 8.42%, respectively. Given that global interest rates are currently increasing and are expected to further increase in the foreseeable future, our finance costs could increase as well. See "*Risk Factors – We are exposed to fluctuations in exchange rates and interest rates*" for further details.

At the same time, we also derive interest income from loans to other parties. For example, as part of the transfer of interest in the Ashton, Austar and Donaldson mines to Watagan on 31 March 2016, the purchase consideration was effectively funded through a loan provided to Watagan bearing interest at the bank bill swap bid rate plus 7.06%. The loan matures in 2025 and is repayable earlier at Watagan's option. The transfer of ownership on 31 March 2016 occurred between wholly owned subsidiaries of the Company at book value with the loan representing non-cash consideration.

Foreign Exchange Rate Fluctuations

We have export sales across the Asia-Pacific region and significant debt funding, both largely denominated in US dollars, and our imported plant and equipment may be priced in US dollars or another foreign currency. At the same time, we operate entirely in Australia with an Australian dollar functional currency. As a result, our financial results are exposed to foreign exchange rate movements, particularly those relating to the Australian dollar and US dollar rate exchange rate.

During the Track Record Period, the A$:US$ exchange rate experienced frequent fluctuations. For example, according to the H.10 statistical release of the Federal Reserve Board, the Australian dollar generally weakened against the US dollar throughout 2015 and early 2016, with the A$:US$ ratio reaching a low of approximately 0.6864 as at 16 January 2016. During this time, our US dollar-denominated sales generated higher revenue as reported in Australian dollars (without taking into account fluctuations in coal prices generally). The A$:US$ rate then gradually strengthened over 2016 and 2017 to reach a high of approximately 0.8071 as at 8 September 2017, during which time our sales and costs experienced the inverse effect.

As foreign exchange rates can vary significantly based on factors outside our control, we seek to hedge our currency exposures. We apply a natural hedge strategy whereby the scheduled repayment of our US dollar denominated loans is nominated against forecast US dollar denominated revenue in the future period matching the scheduled loan repayment date. Through this strategy any unrealised foreign exchange rate gains or losses incurred through the periodic translation of the US dollar denominated loans is deferred on the balance sheet within a hedge reserve. This hedge reserve reverses to the profit and loss in the financial period corresponding with the scheduled loan maturity date. We also enter short term forward exchange contracts to manage the currency exposure between the invoice date of US dollar denominated sales and the cash collection date. Our hedging policy aims to protect against reduced collection of receivables and to reduce the volatility of our US dollar debt. See "*– Qualitative and Quantitative Disclosures on Market Risk"* and "*Risk Factors – We are exposed to fluctuations in exchange rates and interest rates*" for further details.

Taxation

As all our operating entities and operational activities, including those of C&A, are located in Australia, we are generally subject to the statutory corporate tax rate in Australia of 30%. Broadly, as we recorded a loss before income tax in 2015 and 2016 and the six months ended 30 June 2017, we recorded an income tax benefit of A$63 million, A$85 million and A$4 million, respectively. On the other hand, we had profit before income tax in 2017 and the six months ended 30 June 2018, resulting in an income tax expense of A$89 million and A$178 million, respectively. As a result of accumulated tax losses incurred through 2016, we did not pay any cash income tax during the Track Record Period, and do not expect to pay any cash income tax for the near future as we continue to carry forward, and expect to recoup, our prior tax losses. As at 30 June 2018, we had approximately A$2.4 billion of available carried forward tax losses which can be applied to reduce future liability for income tax on our taxable profits, so long as they remain available. Our ability to use these carried forward tax losses will depend, in part, on our continued satisfaction of the loss recoupment tests under Australian tax laws. See "*Risk Factors – The Company may lose the benefit of existing and carried forward tax losses, which may have an adverse effect on its profits*" for further details.

Our effective income tax benefit/expense rate was 17.8%, 27.2%, 26.6%, 22.2% and 33.0% in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, which was lower than the statutory tax rate. This was primarily due to non-temporary differences arising (i) in 2015 and 2016, from non-deductible expenses and prior year under or over provisions for taxes, (ii) in 2015 and 2017, from share of profit or loss non-deductible of equity-accounted investees and (iii) in the six months ended 30 June 2018, from non-deductible expenses, in particular, the impairment of investments in GILTs and WIPs in connection with the WICET senior debt refinancing. See note 10 to the Accountants' Report of the Group in Appendix IA to this prospectus for further details. We expect taxation to continue to materially affect our operating results going forward, regardless of whether we generate a profit before tax or not.

In addition, our tax expenses are not currently affected by the tax benefits/expenses of Watagan. While Watagan is part of the tax consolidated Group, each member entity of the Group is responsible for its own tax obligations. As Watagan is currently deconsolidated for accounting purposes, any resultant tax expense or benefit of Watagan results in a payable or receivable balance between us and Watagan, but the Group's overall tax expenses are otherwise not affected by Watagan.

Impact of Acquisitions, Disposals and Deconsolidation

We have historically have a number of significant transactions in the form of acquisitions, disposals and deconsolidation which had a substantial impact on our historical financial results. See "*– Acquisitions, Disposals and Deconsolidation*" for further details. We may continue to explore and evaluate undertaking these and similar types of transactions going forward, which may further impact our financial results, including to a degree where prior periods are not necessarily comparable with future periods.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This discussion and analysis of our financial position and results of operations is based on our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of our consolidated financial statements requires management to make estimates, judgments and assumptions that affect the

reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Our more critical accounting policies and significant estimates, assumptions and judgments are described below. See notes 4 and 5 to the Accountants' Report of the Group in Appendix IA in this prospectus for further details on our accounting policies, judgments and estimates.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, except that:

- deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with IAS 12 *Income Taxes*;

- assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with IAS 19 *Employee Benefits*;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of our previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounting for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value with corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, our previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e., the date when we obtain control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Interests in Other Entities

Associates

Associates are all entities over which we have 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. Our investments in associates includes goodwill identified on acquisition.

Our share of our associates' post-acquisition profits or losses is recognised in profit or loss, and our 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.

When our share of losses in an associate equals or exceeds our interest in the associate (which includes any long-term interests that, in substance, form part of our net investment in the associate), we do not recognise further losses, unless we have incurred obligations or made payments on behalf of the associate.

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

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

We recognise our 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 statements of financial position, 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 statements of profit or loss and other comprehensive income, after adjusting for amounts recognised directly in equity.

When our share of losses in a joint venture equals or exceeds our 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), we do not recognise further losses, unless we have incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between us and our joint ventures are eliminated to the extent of our 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 us.

Coal Reserves and Resources

We estimate our coal resources and reserves based on information compiled by competent persons as defined by the JORC Code and the ASX Listing Rules.

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

As the economic assumptions used may change and as additional geological information is produced during the operations of a mine, estimates of reserves may change. Additionally the amount of reserves that may actually be mined in the future and our current reserve estimate may vary. Such changes may impact our 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.

Revenue Recognition

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

Descriptions of our performance obligations in contracts with customers and significant judgments applied in revenue recognition are as follows:

Sales of coal

We produce and sell a range of thermal and metallurgical coal products. Revenue from the sale of coal is recognised when control of the product has transferred to the customer. Control of the product is considered transferred to the customer at a point in time which is the time of delivery, usually on a Free On Board ("**FOB**") basis or a Cost and Freight ("**CFR**") basis. For CFR contracts the performance obligation relating to freight services is accounted for as a separate performance obligation pursuant to IFRS 15. On occasion revenue from the sale of coal is recognised as the ship pulls into harbour on a Free Alongside Ship ("**FAS**") basis or from the stockpile on an ex-works basis. The adoption of IFRS 15 has not had, and is not expected to have, a significant effect on our financial position or performance.

A receivable is recognised when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Payment of the transaction price is usually due within 21 days of the date when control of the products is transferred to the customer.

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

Other revenue

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.

Mining services fees

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

Sea freight services

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

Other

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

Other income

Gain on acquisition is recognised in line with the accounting for business combinations.

Taxation

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 we have 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.

Property, Plant and Equipment

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

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.

Assets under construction represent production site development projects under construction for production or for its own use purposes. Assets under construction are carried at cost less any impairment loss. Costs included costs of constructing the production plant and acquisition of mining rights, mining permits and licenses that form an integral part of the overall development projects. Assets under construction are classified to the appropriate category of property, plant and equipment or intangible assets when completed and ready for intended use. Depreciation or amortisation commences when the assets are ready for their intended use.

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 us based on life of mine plans and 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 we 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. For example, the cost of mining development is depreciated using the unit of production method based on the estimated production volume for which the structure was designed. The management exercises their judgment in estimating the useful lives of the depreciable assets and the production volume of the mine. The estimated coal production volumes are updated at regular intervals and have taken into account recent production and technical information about each mine. These changes are considered a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volume are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. 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.

Mining reserve and mining resources are amortised on a straight line basis or unit of production basis over the shorter of their useful lives and the contractual period. The expensing of overburden removal costs is based on saleable coal production over estimated economically recoverable reserves. The useful lives are estimated on the basis of the total proven and probable reserves of the mine. Proven and probable mining reserve estimates are updated at regular intervals and have taken into account recent production and technical information about each mine.

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

The estimated useful lives are as follows:

- Buildings 10 – 25 years
- Mine development 10 – 40 years
- Plant and equipment 2.5 – 40 years
- Leased plant and equipment 2 – 20 years

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

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

Mining Tenements

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 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 the accounting policy in respect of impairment losses on tangible and intangible assets below).

Exploration and Evaluation Assets

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.

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.

Leases

Property, plant and equipment held by us under leases that transfer substantially all of the risks and rewards of ownership to us 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 statement of financial position and are released to the profit or loss on a straight-line basis over the term of the lease.

We expect to adopt IFRS 16 on leases commencing from 1 January 2019, which may affect our accounting results for leases going forward. See "*Risk Factors – The future adoption of IFRS 16 on the accounting treatment of our leases may impact our financial results*" for further details.

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.

DESCRIPTION OF MAJOR LINE ITEMS IN OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets forth our consolidated statements of profit or loss for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2015		2016		2017		2017		2018	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	A$ million	*%*	*A$ million*	*%*	*A$ million*	*%*	*A$ million*	*%*	*A$ million*	*%*
Revenue	1,319	100.0	1,238	100.0	2,601	100.0	832	100.0	2,347	100.0
Other income	34	2.6	15	1.2	325	12.5	8	1.0	115	4.9
Changes in inventories of finished goods and work in progress	2	0.2	(7)	(0.6)	7	0.3	10	1.2	24	1.0
Raw materials and consumables used	(213)	(16.2)	(187)	(15.1)	(349)	(13.4)	(109)	(13.1)	(337)	(14.3)
Employee benefits expenses	(229)	(17.4)	(188)	(15.2)	(302)	(11.6)	(102)	(12.3)	(254)	(10.8)
Depreciation and amortisation	(200)	(15.2)	(133)	(10.7)	(256)	(9.8)	(80)	(9.6)	(244)	(10.4)
Transportation	(261)	(19.8)	(267)	(21.6)	(312)	(12.0)	(122)	(14.7)	(274)	(11.7)
Contractual services and plant hire	(218)	(16.5)	(124)	(10.0)	(274)	(10.5)	(90)	(10.8)	(206)	(8.8)
Government royalties expense	(77)	(5.8)	(71)	(5.7)	(173)	(6.7)	(53)	(6.4)	(161)	(6.9)
Changes in deferred mining costs	(7)	(0.5)	–	–	–	–	–	–	–	–
Coal purchases	(158)	(12.0)	(211)	(17.0)	(340)	(13.1)	(148)	(17.8)	(182)	(7.7)
Other operating expenses	(147)	(11.1)	(163)	(13.2)	(330)	(12.7)	(76)	(9.1)	(170)	(7.2)
Finance costs	(162)	(12.3)	(209)	(16.9)	(294)	(11.3)	(105)	(12.6)	(152)	(6.5)
Share of profit/(loss) of equity-accounted investees, net of tax	(37)	(2.8)	(5)	(0.4)	32	1.2	17	2.0	33	1.4
Profit/(loss) before income tax	(354)	(26.8)	(312)	(25.2)	335	12.9	(18)	(2.2)	539	23.0
Income tax (expense)/benefit	63	4.8	85	6.9	(89)	(3.4)	4	0.5	(178)	(7.6)
Profit/(loss) after income tax	(291)	(22.0)	(227)	(18.3)	246	9.5	(14)	(1.7)	361	15.4
Other comprehensive income for the year	(319)		63		404		274		(141)	
Total comprehensive income for the year	(610)		(164)		650		260		220	

Revenue

We present revenue in our consolidated statements of profit or loss as revenue from continuing operations, which primarily consists of revenue from sales to external customers (including both sales of coal produced from our operating mines and coal which we purchase from third party suppliers and onsell to customers). We then adjust revenue from external customers for fair value losses recycled from our hedge reserve in order to present segment revenue. To a lesser extent, our revenue also includes interest income, mining services fees, and other revenue. The table below sets forth, for the periods indicated, a reconciliation and breakdown of components of our revenue:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	A$ million				
Revenue from external customers	1,288	1,199	2,623	835	2,250
Fair value losses recycled from hedging reserve[1]	(22)	(133)	(229)	(101)	(45)
Total segment revenue	1,266	1,066	2,394	734	2,205
Interest income	50	125	114	57	58
Mining services fees	–	38	52	29	26
Sea freight	–	–	12	–	37
Other revenue	3	9	29	12	21
Total revenue from continuing operations	1,319	1,238	2,601	832	2,347

Note:

(1) The scheduled repayment of the principal amounts on our U.S. dollar denominated loans are designated to hedge the cash flow risks on the portion of forecast U.S. dollar denominated sales that are not hedged through bank-issued instruments, resulting in a natural cash flow hedge. Unrealised foreign exchange gains or losses arising on the translation of hedged U.S. dollar denominated loans are deferred on our balance sheet to a cash flow hedge reserve in equity. Such deferred gains or losses attributable to a U.S. dollar denominated loan are then recycled to the income statement, in the future, during the six-month period in which the loan is scheduled to be repaid. During the Track Record Period this has resulted in net foreign exchange losses previously recognised in the hedge reserve being recycled to the income statement. Net unrealised hedge losses have resulted from a general weakening of the Australian dollar against the U.S. dollar resulting in an increase in the Australian dollar translated liability recognised on the balance sheet. As at 30 June 2018, we had A$791 million of unrealised foreign exchange losses before tax and A$554 million of unrealised foreign exchange losses after tax deferred on our balance sheet in equity. See "*Risk factors – We do not make use of hedging instruments to hedge foreign exchange risks in respect of U.S. dollar denominated loans, and the natural cash flow hedge created by hedging a portion of these loans against our U.S. dollar denominated sales may not be sufficient to offset our foreign exchange losses*".

Revenue from external customers

Our customers are primarily located in the Asia-Pacific region. The table below sets forth, for the periods indicated, a breakdown of our revenue from external customers by jurisdiction, as determined based on the jurisdiction in which the customer is located:

	Year ended 31 December						Six months ended 30 June			
	2015		2016		2017		2017		2018	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	A$ million	*%*	*A$ million*	*%*	*A$ million*	*%*	*A$ million*	*%*	*A$ million*	*%*
Australia	28	2.2	69	5.7	322	12.2	118	14.1	228	10.1
Singapore	315	24.4	261	21.8	337	12.9	161	19.3	451	20.0
South Korea	427	33.2	296	24.7	415	15.8	181	21.7	333	14.8
PRC	107	8.3	179	14.9	654	24.9	196	23.5	479	21.3
Japan	152	11.8	143	11.9	489	18.7	99	11.9	440	19.6
Taiwan	68	5.3	93	7.8	131	5.0	24	2.9	210	9.3
Others(1)	191	14.8	158	13.2	275	10.5	56	6.6	109	4.9
Total revenue from external customers	1,288	100.0	1,199	100.0	2,623	100.0	835	100.0	2,250	100.0

Note:

(1) Includes Malaysia, Vietnam, Thailand, India, Indonesia and Chile.

During the Track Record Period, our largest jurisdictions by revenue were the PRC, South Korea, Singapore and Japan. Revenue from the PRC increased at the fastest pace, from A$107 million in 2015 to A$654 million in 2017, representing 8.3% and 24.9% of our total revenue from external customers in the same years, respectively. Revenue from the PRC also increased from A$196 million in the six months ended 30 June 2017 to A$479 million in the six months ended 30 June 2018, representing 23.5% and 21.3% of our total revenue from external customers in the same periods, respectively. Import restrictions were imposed by the PRC government prior to 2015, resulting in a decrease in sales. Since then, we have employed dedicated sales staff for the PRC to work closely with potential customers in order to establish new business into the PRC in compliance with the import restrictions imposed, which has led to entering into long-term contracts with Chinese end customers.

Revenue from South Korea and Singapore as a percentage of our total revenue from external customers decreased at the fastest pace during the Track Record Period, from 33.2% and 24.4% in 2015, respectively, to 15.8% and 12.9% in 2017, respectively. Lower sales in South Korea in 2016 were partly the result of the deconsolidation of the Ashton, Austar and Donaldson mines, while lower sales in Singapore in 2016 were partly the result of our strategy to shift away from coal traders to coal end customers, for whom our sales are more profitable. The increase in absolute sales in South Korea and Singapore in 2017 was due to the increase in production volume driven by the C&A Acquisition. Total revenue from South Korea and Singapore in 2017 was largely in line with revenue in 2015. In the six months ended 30 June 2018 compared to the six months ended 30 June 2017, revenue from South Korea decreased from 21.7% of our total revenue from external customers to 14.8% of such revenue, while revenue from Singapore as a percentage of total revenue remained stable at 20.0% and 19.3% in those periods, respectively.

Revenue from Australia and Japan also saw an overall increase from 2015 to 2017 in terms of both absolute amounts and as a percentage of our total revenue. Revenue from Australia as a percentage of our total revenue then declined in the six months ended 30 June 2018 compared to the six months ended 30 June 2017, while revenue from Japan as a percentage of our total revenue increased over this period. For both jurisdictions, revenue increased in terms of absolute amounts over this period. The overall increases in revenue from Australia were primarily driven by the C&A Acquisition, which included an increase in sales made to other Australian coal companies. Similarly, the overall increases in revenue from Japan were primarily driven by the C&A Acquisition, with the quality of coal from the HVO and MTW mines being suitable for the Japanese market.

See "– *Significant Factors Affecting Our Results of Operations and Financial Condition – Price and Sales Volume of Coal*" for further details.

Segment revenue

We categorise our operating segments as (i) our coal mining segment, which consists of the New South Wales sub-segment and the Queensland sub-segment, where all our owned mines in operation are located and (ii) our corporate segment. We present our segment revenue net of intersegment sales, which are eliminated on consolidation. The table below sets forth, for the periods indicated, a breakdown of our segment revenue as reconciled with revenue from external customers:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
			A$ million		
Revenue from external customers					
New South Wales	998	873	2,163	616	2,051
Queensland	290	326	460	219	199
Corporate	–	–	–	–	–
Total	1,288	1,199	2,623	835	2,250
Fair value losses recycled from hedge reserve					
New South Wales	–	–	–	–	–
Queensland	–	–	–	–	–
Corporate	(22)	(133)	(229)	(101)	(45)
Total	(22)	(133)	(229)	(101)	(45)
Total segment revenue					
New South Wales	998	873	2,163	616	2,051
Queensland	290	326	460	219	199
Corporate	(22)	(133)	(229)	(101)	(45)
Total	1,266	1,066	2,394	734	2,205

Our New South Wales segment consists of revenue from the Moolarben, HVO, MTW and Stratford Duralie mines. Our Queensland segment consists of revenue from the Yarrabee mine. The increase in revenue reported in the New South Wales segment in 2017 and the six months ended 30 June 2018 resulted from the inclusion of sales from C&A from 1 September 2017.

Fair value losses recycled from hedge reserve represent retranslation losses on our US dollar-denominated loans which are attributable to changes in US$:A$ foreign exchange rates. Under our natural hedge policy, such losses are recycled to the income statement based on the scheduled loan maturity dates. The amount of any fair value loss or gain recycled from the hedge reserve in a period is a function of the amount of the hedged US dollar loan scheduled to mature in that period and the respective US$:A$ exchange rates at the time the hedge was put in place and at the time the loan matured. See note 6 to the Accountants' Report of the Group in Appendix IA to this prospectus for further details.

Interest income, mining services fees and other revenue

Interest income primarily consists of interest generated on our loan to Watagan, which we provided in 2016 to finance Watagan's purchase of control of the Austar, Ashton and Donaldson mines from us, while we retain full ownership interest in those mines. The loan is scheduled to be repaid in 2025. See "*– Acquisitions, Disposals and Deconsolidation – Watagan Deconsolidation*" for further details.

Mining services fees primarily consist of fees that we charge for providing management services to the Austar, Ashton and Donaldson mines on behalf of Watagan and in 2017 and the six months ended 30 June 2018 for the management of the Cameby Downs and Premier mines on behalf of Yanzhou. In 2015 and 2016 the fees charged to the Cameby Downs and Premier mines were credited against the corporate costs incurred, mainly employee benefits. See "*Business – Our Mining Operations – Managed Mines*" for further details.

Sea freight revenue is recognised on a CFR contract, held by C&A, where the customer pays for the coal supplied inclusive of the sea freight incurred on transporting the coal from Australia to the discharge port. The sea freight component is recognised separately from revenue from coal sales. No sea freight was recognised prior to the C&A Acquisition.

Other revenue primarily consists of management fees charged for operating the unincorporated mine joint ventures.

Other Income

Our other income during the Track Record Period primarily consisted of (i) a gain on acquisition of A$177 million in connection with mine assets acquired from C&A benefiting from improved valuation assumptions on the completion date compared to the date of determining the acquisition price, (ii) a reversal of impairment of mining tenements of A$100 million for the Moolarben mine and (iii) a fair value gain on refinancing our secured bank loan at a lower margin of A$31 million on the adoption of IFRS 9. The gain on acquisition, reversal of impairment of mining tenements and the refinance gain were recorded in 2017. Our other income in the six months ended 30 June 2018 of A$115 million primarily consisted of (i) a gain on disposal of A$78 million on the sale of a 16.6% interest in HVO to Glencore and (ii) net foreign exchange gains of A$30 million primarily on US$ cash balances. Our other income in the six months ended 30 June 2017 primarily consisted of a one-off receipt from a joint venture partner. Our other income in 2015 and 2016 primarily consisted of net gains on foreign exchange.

Raw Materials and Consumables Used

Our raw materials and consumables used includes diesel, consumables, maintenance, explosives, tyres, electricity and other general consumables. The table below sets forth, for the periods indicated, a breakdown of our raw materials and consumables used:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Diesel	45	37	80	26	84
Consumables	40	29	68	22	57
Maintenance	53	44	66	18	69
Explosives	26	36	62	21	50
Tyres	16	17	29	9	28
Electricity	18	11	20	6	25
Other	15	13	24	7	24
Total raw materials and consumables used	213	187	349	109	337

Raw materials and consumables used amounted to A$213 million, A$187 million, A$349 million, A$109 million and A$337 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, representing 16.2%, 15.1%, 13.4%, 13.1% and 14.3% of our total revenue in the same periods, respectively. Per tonne raw materials and consumables used were A$16, A$15, A$18, A$18 and A$21 over the same period.

The table below sets forth a sensitivity analysis of hypothetical fluctuations in the cost of utilities (consisting of diesel and electricity) on our profit/loss after tax:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Impact on profit/loss after tax of increase in utilities costs of:					
5%	(2)	(2)	(3)	(1)	(4)
10%	(4)	(3)	(7)	(2)	(8)
Impact on profit/loss after tax of decrease in utilities costs of:					
5%	2	2	3	1	4
10%	4	3	7	2	8

Raw materials and consumables used attributable to underground development is capitalised as mine development and amortised in future periods.

Employee Benefits Expenses

Employee benefits expenses consist of salaries, wages, benefits, short-term and long-term incentives and employee on-costs for all our employees. Employee benefits expenses amounted to A$229 million, A$188 million, A$302 million, A$102 million and A$254 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, representing 17.4%, 15.2%, 11.6%, 12.3% and 10.8% of our total revenue in the same periods, respectively. Per tonne employee benefits expenses were A$17, A$16, A$15, A$16 and A$16 over the same period. In addition to employee benefits expenses recognised in our consolidated statements of profit and loss, we also capitalised A$45 million, A$26 million, A$17 million, A$6 million and A$1 million in such expenses in these periods, respectively, which related to underground development and the Moolarben expansion.

Depreciation and Amortisation

All fixed assets, excluding freehold land, are depreciated on a straight-line or units of production basis over the asset's useful life. Mining tenements are amortised on a life of mine units of production basis based on estimated reserves. Depreciation and amortisation expenses amounted to A$200 million, A$133 million, A$256 million, A$80 million and A$244 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, representing 15.2%, 10.7%, 9.8%, 9.6% and 10.4% of our total revenue in the same periods, respectively. Per tonne depreciation and amortisation costs were A$15, A$11, A$14, A$12 and A$15 over the same period. See "– *Critical Accounting Policies and Estimates – Property, plant and equipment*" for further details.

Transportation

We incur transportation costs primarily in connection with the cost of transporting our coal products to customers, including handling and delivery of coal from our mines to the relevant port via rail for export to overseas end customers (typically on a FOB basis). The table below sets forth, for the periods indicated, a breakdown of our transportation costs:

	Year ended 31 December			**Six months ended 30 June**	
	2015	**2016**	**2017**	**2017**	**2018**
			A$ million		
Rail	158	143	165	70	124
Port	91	118	119	47	103
Sea freight	–	–	12	–	37
Other	12	6	16	5	10
Total transportation costs	261	267	312	122	274

Port costs consist of (i) the actual throughput charge incurred on tonnes discharged through the port and (ii) take-or-pay costs incurred on the unutilised capacity and (iii) other adjustments, which mainly include certain non-cash fair value accounting adjustments. The table below sets forth, for the periods indicated, a breakdown of our port costs:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	A$ million				
Port throughput	68	74	100	37	79
Take-or-pay	37	52	42	15	38
Other	(14)	(8)	(23)	(5)	(14)
Total port costs	91	118	119	47	103

Our transportation costs amounted to A$261 million, A$267 million, A$312 million, A$122 million and A$274 million in 2015, 2016 and 2017 in the six months ended 30 June 2017 and 2018, respectively, representing 19.8%, 21.6%, 12.0%, 14.7% and 11.7% of our total revenue in the same periods, respectively. Per tonne transportation costs were A$20, A$22, A$16, A$20 and A$17 over the same period. The table below sets forth, for the periods indicated, a breakdown of our per tonne transportation costs:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	A$ per tonne				
Rail	12	12	8	11	8
Port					
Throughput	5	6	5	6	5
Take or pay	3	4	2	3	2
Other	(1)	(1)	(1)	(1)	(1)
Subtotal	7	9	6	8	6
Sea freight	–	–	1	–	2
Other	1	1	1	1	1
Per tonne transportation costs	20	22	16	20	17

The table below sets forth a sensitivity analysis of hypothetical fluctuations in transportation costs on our profit/loss after tax:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Impact on profit/loss after tax of increase in transportation costs of:					
5%	(9)	(9)	(11)	(4)	(10)
10%	(18)	(19)	(22)	(9)	(19)
Impact on profit/loss after tax of decrease in transportation costs of:					
5%	9	9	11	4	10
10%	18	19	22	9	19

Contractual Services and Plant Hire

Contractual services and plant hire expenses represent contract labour, including contract mining, consultants and equipment hire costs. Excluding C&A Acquisition transaction costs and costs in connection with the Listing, contractual services and plant hire expenses amounted to A$218 million, A$121 million, A$241 million, A$69 million and A$196 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, representing 16.5%, 9.8%, 9.3%, 8.3% and 8.4% of our total revenue in the same periods, respectively. Per tonne contractual services and plant hire expenses were A$16, A$10, A$13, A$11 and A$12 over the same period. The table below sets forth a sensitivity analysis of hypothetical fluctuations in the cost of contractual services and plant hire on our profit/loss after tax:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Impact on profit/loss after tax of increase in contractual services and plant hire of:					
5%	(8)	(4)	(9)	(2)	(7)
10%	(15)	(9)	(16)	(5)	(14)
Impact on profit/loss after tax of decrease in contractual services and plant hire of:					
5%	8	4	9	2	7
10%	15	9	16	5	14

Government Royalties

Government royalties primarily represent royalties paid to the governments of New South Wales and Queensland on coal produced in these states. Government royalties amounted to A$77 million, A$71 million, A$173 million, A$53 million and A$161 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, representing 5.8%, 5.7%, 6.7%, 6.4% and 6.9% of our total revenue in the same periods, respectively. Royalties are determined on an ad valorem basis by reference to the value of the coal sold and the type of mine, and may be adjusted by the respective state governments separately at their discretion. See "*Appendix IV – Taxation and Regulatory Overview – Regulatory Overview*" and "*Risk Factors – Our business, financial condition and results of operations are subject to government royalties on the production of coal*" for further details.

Coal Purchases

We regularly purchase coal from both related party and third party coal producers located in Australia, which we then on-sell to our customers. Our coal purchases amounted to A$158 million, A$211 million, A$340 million, A$148 million and A$182 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, representing 12.0%, 17.0%, 13.1%, 17.8% and 7.7% of our total revenue in the same periods, respectively. We purchase coal from both related (primarily Watagan) and third parties as part of our coal blending strategy whereby combining the qualities of our own coal with the qualities of others producers' coal results in an enhanced end-product capable of achieving a higher sale price. We do not undertake material amounts of coal purchases for the purpose of coal trading.

Other Operating Expenses

Our other operating expenses amounted to A$147 million, A$163 million, A$330 million, A$76 million and A$170 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, respectively, representing 11.1%, 13.2%, 12.7%, 9.1% and 7.2% of our total revenue in those periods. During the Track Record Period, our other operating expenses primarily consisted of bank fees and other charges incurred in connection with our interest-bearing loans, whereby in addition to the finance costs discussed below, we also incurred bank guarantee fees, which amounted A$116 million, A$113 million, A$109 million, A$49 million and A$62 million, respectively, representing 78.9%, 69.3%, 33.0%, 64.5% and 36.5% of our total other operating expenses in those same periods. In addition, stamp duty incurred in connection with the C&A Acquisition was a major component of our other operating expenses in 2017, amounting to A$167 million and representing 50.6% of our other operating expenses. In the six months ended 30 June 2018, our other operating expenses included A$16 million in stamp duty incurred in connection with the Warkworth Transaction and A$50 million related to the partial impairment of our investment in GILTs and full impairment of our investment in WIPs issued by WICET as a result of the WICET senior debt refinancing, which together represented 38.8% of our other operating expenses in this period. Stamp duty expenses are only incurred if acquisitions are undertaken. Other components of our other operating expenses include travel and accommodation for our staff, net losses on disposal of property, plant and equipment, insurance, and other duties and levies.

Finance Costs

Our finance costs primarily consist of interest expenses incurred on our interest-bearing bank loans, loans from related parties and secured lease liabilities. Our finance costs amounted to A$162 million, A$209 million, A$294 million, A$105 million and A$152 million in 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, representing 12.3%, 16.9%, 11.3%, 12.6% and 6.5% of our total revenue in those periods, respectively. See *"– Indebtedness*" for further details.

Income Tax Expense/Benefit

We are generally subject to the statutory corporate tax rate in Australia of 30%. We recorded a loss before income tax in 2015, 2016 and the six months ended 30 June 2017, resulting in an income tax benefit of A$63 million, A$85 million and A$4 million, respectively. On the other hand, we had profit before income tax in 2017 and the six months ended 30 June 2018, resulting in an income tax expense of A$89 million and A$178 million, respectively. As a result of accumulated tax losses incurred through 2016, we did not pay any cash income tax during the Track Record Period, and do not expect to pay any cash income tax for the near future as we continue to carry forward and expect to recoup our prior tax losses. Our effective income tax benefit/expense rate was 17.8%, 27.2%, 26.6%%, 22.2% and 33.0% in the same periods, respectively. See "– *Significant Factors Affecting Our Results of Operations and Financial Condition – Taxation*" and note 10 to the Accountants' Report of the Group in Appendix IA to this prospectus for further details.

Other Comprehensive Income

Our other comprehensive income consists of cash flow hedges involving US dollar denominated interest-bearing liabilities hedged against future coal sales. The table below sets forth, for the periods indicated, a breakdown of our other comprehensive income:

	As at 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Fair value gains/(losses) on US$ interest-bearing liabilities	(475)	(43)	348	290	(246)
Fair value losses transferred to profit or loss	22	133	229	101	45
Deferred income tax benefit/(expense)	134	(27)	(173)	(117)	60
Other comprehensive income/(expense), net of tax	(319)	63	404	274	(141)

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Six Months Ended 30 June 2018 Compared to Six Months Ended 30 June 2017

The below period-on-period comparison of our financial results in the six months ended 30 June 2018 with the six months ended 30 June 2017 is materially impacted by changes in our portfolio of assets, most significantly:

- The C&A Acquisition from 1 September 2017;
- The Warkworth Transaction from 1 March 2018;
- The Glencore Transaction from 4 May 2018; and
- The expansion of the Moolarben mine from 7.5 Mt ROM in the six months ended 30 June 2017 to 9.8 Mt in the six months ended 30 June 2018 (on a 100% basis).

Revenue

Our total revenue increased by 182% from A$832 million in the six months ended 30 June 2017 to A$2,347 million in the six months ended 30 June 2018, primarily due to a 169% increase in coal sales (which is revenue from external customers excluding revenue from sea freight services of A$37 million in the six months ended 30 June 2018 in accordance with IFRS 15) from A$835 million to A$2,250 million over this period, partially offset by a decrease in fair value losses recycled from the hedge reserve from A$101 million to A$45 million over this period. With respect to coal sales, the key factors were:

(i) an increase in our overall average selling price of coal from A$108 per tonne in the six months ended 30 June 2017 to A$128 per tonne in the six months ended 30 June 2018, mainly as a result of the increase in global coal market prices during this period, including thermal coal market prices increasing by approximately US$22 per tonne and metallurgical coal market prices increasing by approximately US$16 per tonne. Our average selling price of thermal coal increased from A$90 per tonne to A$117 per tonne, while our average selling price of metallurgical coal increased from A$174 per tonne to A$191 per tonne; and

(ii) an increase in our sales volume of coal from 6.2 Mt in the six months ended 30 June 2017 to 16.2 Mt in the six months ended 30 June 2018, mainly as a result of increased production volume from mines in New South Wales due to (a) the C&A Acquisition, for which all of C&A's mines in production are located therein and (b) the expansion of Moolarben from 4.7 Mt in the six months ended 30 June 2017 to 6.5 Mt in the six months ended 30 June 2018 (on an attributable basis).

The increase in production volume in New South Wales, together with the increase in average selling price of coal, resulted in our segment revenue (excluding freight services revenue) for New South Wales increasing from A$616 million in the six months ended 30 June 2017 to A$2,051 million in the six months ended 30 June 2018. Segment revenue for Queensland decreased from A$219 million in the six months ended 30 June 2017 to A$199 million in the six months ended 30 June 2018, primarily due to lower sales volume.

We achieved an increase in revenue (excluding freight services revenue) from external customers across each of our key geographic markets. In particular, we experienced substantial increases in revenue from the six months ended 30 June 2017 to the six months ended 30 June 2018 from (i) A$196 million to A$479 million in the PRC, (ii) A$99 million to A$440 million in Japan and (iii) A$118 million to A$228 million in Australia. The increase in the PRC was primarily due to our efforts to increase sales of our higher ash products to end users in the PRC following the implementation of import restrictions by the Chinese government prior to 2015. The increase in Japan was primarily attributable to the C&A Acquisition, with the quality of coal from the HVO and MTW mines being suitable for the Japanese market. The increase in sales within Australia was also driven by the C&A Acquisition, and included sales made to other Australian coal companies.

See "*– Significant Factors Affecting Our Results of Operations and Financial Condition – Price and Sales Volume of Coal*" for further details.

Other income

Our other income significantly increased from A$8 million in the six months ended 30 June 2017 to A$115 million in 30 June 2018, primarily due to (i) a gain on disposal of A$78 million on the Glencore Transaction and (ii) net foreign exchange gains of A$30 million primarily on US$ cash balances.

Raw materials and consumables used

Our raw materials and consumables increased by 209% from A$109 million in the six months ended 30 June 2017 to A$337 million in the six months ended 30 June 2018, primarily due to the impact of the C&A Acquisition and the Moolarben expansion that contributed to a 165% increase in saleable tonnes. In particular, our diesel costs increased by 223%, primarily due to increased market prices for diesel fuel and larger truck fleets at the acquired C&A mines due to longer hauls. In addition, electricity costs increased by 317% due to increased market prices and the use of electric draglines at the C&A mines. This contributed to an increase in per tonne raw materials and consumables used from A$18 to A$21 over the same period.

Employee benefits expenses

Our employee benefits expenses increased by 149% from A$102 million in the six months ended 30 June 2017 to A$254 million in the six months ended 30 June 2018, primarily due to the increase in overall headcount as a result of the C&A Acquisition and the Moolarben expansion. Employee benefits expenses as a percentage of revenue decreased from 12.3% to 10.8% over the same period, primarily due to the additional sales primarily being attributable to our Tier 1 mines (Moolarben, HVO (which is operated as an unincorporated joint venture with Glencore) and MTW). Per tonne employee benefits expenses were in line at A$16 over both periods.

Depreciation and amortisation

Our depreciation and amortisation expenses increased by 205% from A$80 million in the six months ended 30 June 2017 to A$244 million in the six months ended 2018, primarily due to an increase in mining tenements and plant and equipment of A$2,456 million and A$1,326 million, respectively, primarily from the C&A Acquisition, together with expansionary capital incurred at Moolarben. Per tonne depreciation and amortisation costs increased from A$12 to A$15 over the same period.

Transportation

Our transportation costs increased by 125% from A$122 million in the six months ended 30 June 2017 to A$274 million in the six months ended 30 June 2018, primarily due to increased sales volume of coal requiring additional payments for rail and freight services. However, transportation costs as a percentage of our total revenue decreased from 14.7% to 11.7% in those periods, respectively, primarily due to an increase in revenue and a lower rail cost per tonne on the C&A acquired mines due to their relative proximity to port and less exposure to take-or-pay commitments. This contributed to a decrease in per tonne transportation costs from A$20 to A$17 over the same period, with a A$4 per tonne decrease attributable to a lower average rail cost.

Contractual services and plant hire

Our contractual services and plant hire expenses increased by 129% from A$90 million in the six months ended 30 June 2017 to A$206 million in the six months ended 30 June 2018, primarily due to the C&A Acquisition, as C&A mines utilise a significant number of contractors and hire equipment, as well as professional service fees and other costs incurred in connection with the C&A Acquisition and the Listing. This contributed to an increase in per tonne contractual services and plant hire from A$11 to A$12 over the same period.

Government royalties

Our government royalties expenses increased by 204% from A$53 million in the six months ended 30 June 2017 to A$161 million in the six months ended 30 June 2018, primarily due to increased royalties levied on our increased sales revenue, which were driven by both higher prices and production volumes.

Coal purchases

Our coal purchases increased by 23% from A$148 million in the six months ended 30 June 2017 to A$182 million in the six months ended 30 June 2018, primarily due to an increase in coal blending activity driven by the increase in ex-mine coal production as a result of the C&A Acquisition and the Moolarben expansion. Coal purchases as a percentage of our total revenue decreased from 17.8% to 7.7% over the same period, primarily due to a relatively lower amount of coal blending being undertaken on the C&A sales while we evaluate and adjust to C&A's customer relationships and their coal quality needs, as well as the impact of the new management arrangements at HVO.

Other operating expenses

Our other operating expenses increased by 124% from A$76 million in the six months ended 30 June 2017 to A$170 million in the six months ended 30 June 2018, primarily due to stamp duty incurred in connection with the Warkworth Transaction and A$50 million related to partial impairment of our investment in GILTs and the full impairment of our investment in WIPs as a result of the WICET senior debt refinancing.

Finance costs

Our finance costs increased by 45% from A$105 million in the six months ended 30 June 2017 to A$152 million in the six months ended 30 June 2018, primarily due to an increase in US LIBOR and a weaker Australian dollar. Finance costs as a percentage of revenue decreased from 12.6% to 6.5% over the same period, primarily due to the increase in revenue, including from the equity-funded C&A Acquisition, and the matters noted above.

Loss/profit before tax and loss/profit before tax margin

As a result of the aforementioned reasons, we had a loss before income tax of A$18 million in the six months ended 30 June 2017 and a profit before income tax of A$539 million in the six months ended 30 June 2018. Our loss/profit before income tax margin was (2.2)% and 23.0% in those periods, respectively.

Income tax expense/benefit

We had an income tax benefit of A$4 million in the six months ended 30 June 2017 and an income tax expense of A$178 million in the six months ended 30 June 2018. Our effective income tax benefit/expense rate was 22.2% and 33.0% in the same periods, respectively. Our tax benefit in the six months ended 30 June 2017 was partially offset by a non-deductible share of equity-accounted profit of A$10 million, while our tax expense in the six months ended 30 June 2018 was impacted by non-deductible accounting expenses, including the A$50 million impairment on GILTs and WIPs in connection with the WICET senior debt refinancing.

Loss/profit after tax and loss/profit after tax margin

As a result of the aforementioned reasons, we had a loss after income tax of A$14 million in the six months ended 30 June 2017 and a profit after income tax of A$361 million in the six months ended 30 June 2018. Our loss/profit after income tax margin was (1.7)% and 15.4% in the same periods, respectively.

Year Ended 31 December 2017 Compared to Year Ended 31 December 2016

The below year-on-year comparison of our financial results in 2017 with 2016 is materially impacted by changes in our portfolio of assets, most significantly:

- The C&A Acquisition from 1 September 2017;
- The deconsolidation of Watagan from 31 March 2016; and
- The expansion of the Moolarben mine from 11.8 Mt ROM in 2016 to 13.0 Mt ROM in 2017 (on a 100% basis).

Revenue

Our total revenue increased by 110.1% from A$1,238 million in 2016 to A$2,601 million in 2017, primarily due to a 118.8% increase in coal sales (which is revenue from external customers excluding revenue from sea freight services of A$12 million in 2017 in accordance with IFRS 15) from A$1,199 million in 2016 to A$2,623 million in 2017, partially offset by an increase in fair value losses recycled from the hedge reserve from A$133 million in 2016 to A$229 million in 2017. With respect to coal sales, the key factors were:

(i) an increase in our overall average selling price of coal from A$80 per tonne in 2016 to A$114 per tonne in 2017, mainly as a result of the increase in global coal market prices during this period, including thermal coal market prices increasing by approximately US$20 per tonne and metallurgical coal market prices increasing by approximately US$50 per tonne. Our average selling price of thermal coal increased from A$71 per tonne to A$102 per tonne, while our average selling price of metallurgical coal increased from A$106 per tonne to A$165 per tonne; and

(ii) an increase in our sales volume of coal from 12.1 Mt in 2016 to 19.3 Mt in 2017, mainly as a result of increased production volume from mines in New South Wales due to (a) the C&A Acquisition, for which all of C&A's mines in production are located therein and (b) the expansion of Moolarben from 7.4 Mt in 2016 to 10.2 Mt in 2017.

The increase in production volume in New South Wales, together with the increase in average selling price of coal, resulted in our segment revenue for New South Wales increasing from A$873 million in 2016 to A$2,163 million in 2017, while the increase in segment revenue for Queensland from A$326 million in 2016 to A$460 million in 2017 was more price-driven.

We achieved an increase in revenue from external customers across each of our key geographic markets. In particular, we experienced substantial increases in revenue from 2016 to 2017 from (i) A$179 million to A$654 million in the PRC, (ii) A$143 million to A$489 million in Japan and (iii) A$69 million to A$322 million in Australia. The increase in the PRC was primarily due to our efforts to increase sales of our higher ash products to end users in the PRC following the implementation of import restrictions by the Chinese government prior to 2015. The increase in Japan was primarily attributable to the C&A Acquisition, with the quality of coal from the HVO and MTW mines being suitable for the Japanese market. The increase in sales within Australia was also driven by the C&A Acquisition, and included sales made to other Australian coal companies.

See "– *Significant Factors Affecting Our Results of Operations and Financial Condition – Price and Sales Volume of Coal*" for further details.

Other income

Our other income significantly increased from A$15 million in 2016 to A$325 million in 2017, primarily due to (i) a gain on acquisition of A$177 million in connection with mine assets acquired from C&A benefiting from improved valuation assumptions on the completion date compared to the date of determining the acquisition price, (ii) a reversal of impairment of mining tenements of A$100 million in connection with the Moolarben mine and (iii) a fair value gain on refinancing our secured bank loan at a lower margin of A$31 million on the adoption of IFRS 9.

Raw materials and consumables used

Our raw materials and consumables increased by 86.6% from A$187 million in 2016 to A$349 million in 2017, primarily due to the impact of the C&A Acquisition and the Moolarben expansion that contributed to a 59.9% increase in saleable tonnes. In particular, our diesel costs increased by 116.2%, primarily due to increased market prices for diesel fuel and larger truck fleets at the acquired C&A mines due to longer hauls. This contributed to an increase in per tonne raw materials and consumables used from A$15 to A$18 over the same period.

Employee benefits expenses

Our employee benefits expenses increased by 60.6% from A$188 million in 2016 to A$302 million in 2017, primarily due to the increase in overall headcount as a result of the C&A Acquisition and the Moolarben expansion. Employee benefits expenses as a percentage of revenue decreased from 15.2% to 11.6% over the same period, primarily due to the additional sales primarily being attributable to our Tier 1 mines (Moolarben, HVO and MTW). Per tonne employee benefits expenses decreased slightly from A$16 to A$15 over the same period.

Depreciation and amortisation

Our depreciation and amortisation expenses increased by 92.5% from A$133 million in 2016 to A$256 million in 2017, primarily due to an increase in mining tenements and plant and equipment of A$2,456 million and A$1,326 million, respectively, from the C&A Acquisition, together with expansionary capital incurred at Moolarben. Per tonne depreciation and amortisation costs increased slightly from A$11 to A$14 over the same period.

Transportation

Our transportation costs increased by 16.9% from A$267 million in 2016 to A$312 million in 2017, primarily due to increased sales volume of coal requiring additional payments for rail and freight services. However, transportation costs as a percentage of our total revenue decreased from 21.6% to 12.0% in the same years, respectively, primarily due to an increase in revenue and a lower rail cost per tonne on the C&A acquired mines due to their relative proximity to port and less exposure to take-or-pay commitments. This contributed to a decrease in per tonne transportation costs from A$22 to A$16 over the same period, with a A$4 per tonne decrease attributable to lower average rail cost and A$2 per tonne decrease attributable to spreading our port take-or-pay exposure across a larger transport volume.

Contractual services and plant hire

Our contractual services and plant hire expenses increased by 121.0% from A$124 million in 2016 to A$274 million in 2017, primarily due to the C&A Acquisition, as C&A mines utilise a significant number of contractors and hire equipment, as well as professional service fees and other costs incurred in connection with the C&A Acquisition. This contributed to an increase in per tonne contractual services and plant hire from A$10 to A$13 over the same period.

Government royalties

Our government royalties expenses increased by 143.7% from A$71 million in 2016 to A$173 million in 2017, primarily due to increased royalties levied on our increased sales revenue, which were driven by both higher prices and production volumes.

Coal purchases

Our coal purchases increased by 61.1% from A$211 million in 2016 to A$340 million in 2017, primarily due to an increase in coal blending activity driven by the increase in ex-mine coal production as a result of the C&A Acquisition and the Moolarben expansion. Coal purchases as a percentage of our total revenue decreased from 17.0% to 13.1% over the same period, primarily due to a relatively lower amount of coal blending being undertaken on the C&A sales while we evaluate and adjust to C&A's customer relationships and their coal quality needs.

Other operating expenses

Our other operating expenses increased by 102.5% from A$163 million in 2016 to A$330 million in 2017, primarily due to stamp duty incurred in connection with the acquisition of C&A.

Finance costs

Our finance costs increased by 40.7% from A$209 million in 2016 to A$294 million in 2017, primarily due to (i) an unwinding of discounts on provisions for a below market sales contract, rehabilitation costs and take-or-pay exposure including those acquired with C&A, of A$50 million, (ii) deferred consideration of A$13 million in connection with the C&A Acquisition and (iii) the modification of loans of A$7 million in accordance with IFRS 9. Finance costs as a percentage of revenue decreased from 16.9% to 11.3% over the same period, primarily due to the increase in revenue, including from the equity-funded C&A Acquisition, and the matters noted above.

Loss/profit before tax and loss/profit before tax margin

As a result of the aforementioned reasons, we had a loss before income tax of A$312 million in 2016 and a profit before income tax of A$335 million in 2017. Our loss/profit before income tax margin was 25.2% and 12.9% in those years, respectively.

Income tax expense/benefit

We had an income tax benefit of A$85 million in 2016 and an income tax expense of A$89 million in 2017. Our effective income tax benefit/expense rate was 27.2% and 26.6% in the same years, respectively. Our tax benefits in 2016 were partially offset by non-deductible debt of A$19 million, while our tax expenses in 2017 were partially offset by share of profit of non-deductible equity-accounted investees of A$10 million.

Loss/profit after tax and loss/profit after tax margin

As a result of the aforementioned reasons, we had a loss after income tax of A$227 million in 2016 and a profit after income tax of A$246 million in 2017. Our loss/profit after income tax margin was 18.3% and 9.5% in the same years, respectively.

Year Ended 31 December 2016 Compared to Year Ended 31 December 2015

The below year-on-year comparison of our financial results in 2016 and 2015 is materially impacted by changes in our portfolio of assets, most significantly:

- The deconsolidation of Watagan from 31 March 2016, and
- The expansion of the Moolarben mine from 9.0 Mt ROM in 2015 to 11.8 Mt ROM in 2016 (on a 100% basis).

Revenue

Our total revenue decreased by 6.1% from A$1,319 million in 2015 to A$1,238 million in 2016, primarily due to a 6.9% decrease in coal sales from A$1,288 million in 2015 to A$1,199 million in 2016, partially compounded by an increase in fair value losses recycled from the hedge reserve of A$22 million in 2015 to A$133 million in 2016. With respect to coal sales, the key factor was a decrease in our sales volume of coal from 13.4 Mt in 2016 to 12.1 Mt in 2017, mainly as a result of decreased production volumes from mines in New South Wales as a result of deconsolidation of the Watagan mines, partially offset by the expansion of Moolarben from 5.5 Mt in 2015 to 7.4 Mt in 2016. The decrease in production volume for New South Wales was also in line with the decrease in our segment revenue for New South Wales from A$998 million in 2015 to A$873 million in 2016, while the segment revenue for Queensland slightly increased from A$290 million in 2015 to A$326 million in 2016.

Our overall average selling price of coal remained stable at A$80 per tonne in both 2015 and 2016, mainly as a result of general stagnation experienced in the global coal market during this period. Our average selling price of thermal coal slightly increased from A$68 per tonne to A$71 per tonne, while our average selling price of metallurgical coal increased slightly from A$100 per tonne to A$106 per tonne.

By geographic region, we experienced a decrease in revenue from external customers from 2015 to 2016 primarily in (i) South Korea from A$427 million to A$296 million, respectively, a decrease of 30.7%, (ii) Singapore from A$315 million to A$261 million, respectively, a decrease of 17.1% and (iii) others from A$191 million to A$158 million, respectively, a decrease of 17.3%. The decrease in South Korea was primarily due to the deconsolidation of the Watagan Mines for which South Korean steel mills were one of the major end customers. The decrease in Singapore was due to our efforts to sell more coal to end users and less to traders, who are generally domiciled in Singapore. The decrease in other jurisdictions was driven by our strategy of establishing contracts directly with end-users, therefore making fewer "spot" sales, which we frequently use in our less traditional markets. These decreases were partially offset by an increase in revenue from 2015 to 2016 in (i) the PRC from A$107 million to A$179 million, respectively, an increase of 67.3%, (ii) Australia from A$28 million to A$69 million, respectively, an increase of 146.4% and (iii) Taiwan from A$68 million to A$93 million, respectively, an increase of 36.8%. The increase in sales to the PRC was primarily due to the active marketing of some of our higher ash products and followed a decline in sales prior to 2015 as a result of import restrictions by the Chinese government. The modest increase in Australia was driven by an increased level of trade with fellow Australian coal producers. The increase in Taiwan was primarily due to the timing of a Taiwanese power utility contract commencing in 2016.

See "*– Significant Factors Affecting Our Results of Operations and Financial Condition – Price and Sales Volume of Coal*" for further details.

Other income

Our other income decreased by 55.9% from A$34 million in 2015 to A$15 million in 2016, primarily due to certain income received in 2015 which we did not receive in 2016, including a gain on acquisition of an additional 1% interest in Moolarben, the release of research and development provisions and sundry income.

Raw materials and consumables used

Our raw materials and consumables decreased by 12.2% from A$213 million in 2015 to A$187 million in 2016, primarily due to a 9.1% decrease in saleable tonnes due to the Watagan deconsolidation, partially offset by the Moolarben expansion. Electricity costs and consumables decreased by 38.9% and 27.5%, respectively, as the Watagan underground mines consume relatively large quantities of each. This contributed to a slight decrease in per tonne raw materials and consumables used from A$16 in 2015 to A$15 in 2016.

Employee benefits expenses

Our employee benefits expenses decreased by 17.9% from A$229 million in 2015 to A$188 million in 2016, primarily due to the decrease in headcount costs in line with the decrease in saleable tonnes, as well as lower labour costs following the deconsolidation of Watagan mines, for which the underground mines are more labour intensive. Per tonne employee benefits expenses decreased slightly from A$17 to A$16 over the same period.

Depreciation and amortisation

Our depreciation and amortisation expenses decreased by 33.5% from A$200 million in 2015 to A$133 million in 2016, primarily due to decreases in depreciation of plant and equipment and mine development as a result of the deconsolidation of the capital-intensive Watagan underground mines. For the same reason, depreciation and amortisation expenses as a percentage of our total revenue decreased from 15.2% to 10.7% over the same period. This also contributed to a decrease in per tonne depreciation and amortisation costs from A$15 to A$11 over the same period.

Transportation

Our transportation costs increased by 2.3% from A$261 million in 2015 to A$267 million in 2016, primarily due to an increase in take-or-pay port commitments, partially offset by a decrease in rail charges as a result of reduced coal sale volume. Per tonne transportation costs increased from A$20 to A$22 over the same period for the same reasons.

Contractual services and plant hire

Our contractual services and plant hire expenses decreased by 43.1% from A$218 million in 2015 to A$124 million in 2016, and as a percentage of our total revenue decreased from 16.5% to 10.0% over the same period, primarily due to (i) the deconsolidation of the Watagan mines in March 2016, which used contractor crews to perform certain functions and (ii) the shift in Stratford Duralie's operations from outsourced contractual management to an insourced owner-operator model. This contributed to a decrease in per tonne contractual services and plant hire from A$16 to A$10.

Government royalties

Our government royalties expenses decreased by 7.8% from A$77 million in 2015 to A$71 million in 2016, primarily due to decreased royalties levied on our decreased sales volume of coal.

Coal purchases

Our coal purchases increased by 33.5% from A$158 million in 2015 to A$211 million in 2016, primarily due to the continued increase in coal blending opportunities that we undertook. Coal purchases as a percentage of our total revenue increased from 12.0% to 17.0% over the same period.

Other operating expenses

Our other operating expenses increased by 10.9% from A$147 million in 2015 to A$163 million in 2016, primarily due to additional stamp duty incurred in connection with the 2012 acquisition of the Donaldson mine and a fair value adjustment of the 4% royalties receivable from Middlemount. See "*– Description of Major Line Items in Our Consolidated Statements of Financial Position – Royalty Receivable*" for further details.

Finance costs

Our finance costs increased by 29.0% from A$162 million in 2015 to A$209 million in 2016, primarily due to an increase in interest expenses in connection with an overall increase in our interest-bearing liabilities and a slight increase in interest rates on our secured bank loans. Finance costs as a percentage of our total revenue increased from 12.3% to 16.9% over the same period, primarily due to the compounding impact of decreasing revenue and increasing finance costs.

Loss before tax and loss before tax margin

As a result of the aforementioned reasons, our loss before income tax decreased by 11.9% from A$354 million in 2015 to A$312 million in 2016. Our loss before income tax margin was 26.8% and 25.2% in the same years, respectively.

Income tax benefit

Our income tax benefit increased by 34.9% from A$63 million in 2015 to A$85 million in 2016, while our effective income tax benefit rate was 17.8% and 27.2% in the same years, respectively. Our tax benefits in 2015 were partially offset by reversals of over-provisions for taxes in prior years of A$19 million, while our tax benefits in 2016 were positively impacted by reversals of under-provisions for taxes in prior years of A$12 million. Our tax benefits in 2015 and 2016 were also partially offset by non-deductible debt of A$16 million and A$19 million, respectively.

Loss after tax and loss after tax margin

As a result of the aforementioned reasons, our loss after income tax decreased by 22.0% from A$291 million in 2015 to A$227 million in 2016. Our loss after income tax margin was 22.1% and 18.3% in the same years, respectively.

Non-IFRS Financial Measures

Operating EBITDA and operating EBIT are key metrics that our management uses to assess the performance of our individual segments and make decisions on the allocation of resources. Neither operating EBITDA nor operating EBIT is a standard measure under IFRS. As presented by our management, operating EBITDA represents profit or loss before income tax for the year as adjusted for net interest expense, depreciation and amortisation and any significant non-operating items, while operating EBIT represents profit or loss before income tax as adjusted for net interest expense and any significant non-operating items.

While operating EBITDA and operating EBIT provide additional financial measures for investors to assess our operating performance, the use of operating EBITDA and operating EBIT has certain limitations because they do not reflect all items of income and expense that affect our operations. In addition, operating EBITDA and operating EBIT do not reflect changes in working capital, capital expenditure or other investing and financing activities and therefore should not be considered a measure of our liquidity.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to operating EBITDA and operating EBIT is profit before income tax. The table below sets forth, for the periods indicated, a reconciliation of operating EBITDA and operating EBIT with profit before income tax under IFRS:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Profit before income tax	(354)	(312)	335	(18)	539
Adjustments for:					
Finance costs	162	209	294	105	152
Bank fees and other charges	116	113	109	49	62
Interest income	(50)	(125)	(114)	(57)	(58)
Stamp duty	–	12	167	3	16
Fair value losses recycled from hedge reserve	22	133	229	101	45
Gain on acquisition	(6)	–	(177)	–	–
Gain on disposal	–	–	–	–	(78)
Impairment reversal of mining tenements for Moolarben	–	–	(100)	–	–
GILTs and WIPs remeasurement and impairment	–	–	–	–	50
Gain on refinance	–	–	(31)	–	–
Transaction costs	–	3	33	21	10
JV receipt	–	–	(5)	(5)	–
Royalty remeasurement	(2)	6	(8)	(2)	(2)
Operating EBIT	(112)	39	732	197	736
Adjustment for depreciation and amortisation	200	133	256	80	244
Operating EBITDA	88	172	988	277	980

In 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018, our operating EBIT margin (calculated as operating EBIT divided by revenue and multiplied by 100%) was (8.5)%, 3.2%, 28.1%, 23.7% and 31.4%, respectively, while our operating EBITDA margin (calculated as operating EBITDA divided by revenue and multiplied by 100%) was 6.7%, 13.9%, 38.0%, 33.3% and 41.8%, respectively.

Operating EBITDA and operating EBIT should not be considered in isolation or construed as a substitute for analysis of IFRS financial measures. In addition, because operating EBITDA and operating EBIT may not be calculated in the same manner by all companies, our operating EBITDA and operating EBIT may not be comparable to the same or similarly titled measures presented by other companies.

DESCRIPTION OF MAJOR LINE ITEMS IN OUR CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, Plant and Equipment

Our property, plant and equipment primarily includes (i) plant and equipment, (ii) assets under construction, (iii) freehold land and buildings and (iv) mine development assets, which represents all mining related development expenditure that is not included under land, buildings and plant and equipment. Our balance of property, plant and equipment was A$1,250 million, A$1,526 million, A$2,832 million and A$2,938 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively. The substantial increase as at 30 June 2018 and 31 December 2017 was primarily due to our consolidation of property, plant and equipment of C&A following the acquisition. See "– *Critical Accounting Policies and Estimates – Property, plant and equipment*" and note 22 to the Accountants' Report of the Group in Appendix IA to this prospectus for further details.

Mining Tenements

Our mining tenements represent the value that we have attributed to our mining leases as part of the opening balance sheet fair value accounting adopted on the acquisition of a mine. Generally, the value represents the premium paid for the mine excluding the separately identifiable tangible assets and liabilities, including exploration assets. The value is initially supported with reference to the estimated coal reserves included in the acquisition life of mine model. Such estimates may change as additional information becomes available over the course of developing or operating a mine, which would result in adjustments or amortisation of our reserves and resources, and in turn our mining tenements. Our balance of mining tenements was A$2,085 million, A$2,128 million, A$4,296 million and A$4,308 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively. The substantial increase as at 30 June 2018 and 31 December 2017 was primarily due to our recognition of additional mining tenements as a consequence of the C&A Acquisition. See "– *Critical Accounting Policies and Estimates – Mining tenements*" and note 19 to the Accountants' Report of the Group in Appendix IA to this prospectus for further details.

Exploration and Evaluation Assets

Exploration and evaluation assets represent our exploration leases and rights for mines and potential mines in the exploratory and development stages such as prospecting licenses and exploration licenses. Exploration and evaluation assets are recognised on the acquisition of a mine in respect of coal resources not included in the acquisition life-of-mine model and are subsequently transferred to mining tenements as the associated mine or mine area enters production. Our balance of exploration and evaluation assets decreased by 15.7% from A$591 million as at 31 December 2015 to A$498 million as at 31 December 2016, primarily due to a transfer of A$101 million to mining tenements in connection with the expansion of the Moolarben open cut mine, then increased by 13.5% to A$565 million as at 31 December 2017, primarily due to the consolidation of such assets from C&A following the acquisition and further increased by 2.1% to A$577 million as at 30 June 2018, primarily due to the Warkworth Transaction. See "– *Critical Accounting Policies and Estimates – Exploration and evaluation assets*" and note 20 to the Accountants' Report of the Group in Appendix IA to this prospectus for further details.

Inventories

Our inventories consist of coal stocks and auxiliary materials, spare parts, small tools and fuel expected to be used in production. The table below sets forth, for the years indicated, a breakdown of our inventories:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	A$ million			
Coal	49	47	87	123
Others	27	28	63	82
Total inventories	76	75	150	205

The increase in our balance of total inventories as at 31 December 2017 was primarily due to our consolidation of C&A's inventories following the C&A Acquisition. The further increase as at 30 June 2018 was primarily due to the timing of sales.

We state coal stocks at the lower of cost and net realisable value. Costs are assigned on a weighted average basis and include direct materials, direct labour and certain overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. We write down coal stocks from cost to net realisable value when we determine that such write down is appropriate in the course of assessing our stocks for obsolescence. Coal stock write downs amounted to A$12 million, A$1 million, A$1 million and A$1 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively.

The table below sets forth, for the periods indicated, our average finished goods inventory turnover days:

	Year ended 31 December			Six months ended 30 June
	2015	**2016**	**2017**	**2018**
Average finished goods inventory turnover days[(1)]	25	24	21	21

Note:

(1) Calculated as the average monthly balance of finished goods inventory for the relevant period divided by FOB cash costs (excluding royalties) for the same month and multiplied by the number of days in the month. We believe that this presents the best approximation of average inventory turnover days in our operations. If calculated as the average annual balance of total inventories for the relevant period (which is the sum of the total balance as at the beginning and end of the period divided by two) divided by revenue from external customers for the relevant year and multiplied by 365 days (for the full-year periods) or 183 days (for the six months ended 30 June 2018), our average inventory turnover days would have been 26, 22, 16, 14 days in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively.

Our average finished goods inventory turnover days were largely stable over the Track Record Period.

As at 31 August 2018, A$121 million, or 99%, of our coal inventories as at 30 June 2018 had been sold or consumed.

Trade and Other Receivables

Our trade receivables are ordinary course, non-interest-bearing receivables due from our coal customers. Our trade receivables amounted to A$157 million, A$278 million, A$540 million and A$424 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively, none of which were past due or impaired. The substantial increase as at 30 June 2018 and 31 December 2017 was primarily attributable to the consolidation of C&A's receivables in connection with the C&A Acquisition. The table below sets forth our average trade receivable turnover days for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2015	**2016**	**2017**	**2018**
Average trade receivable turnover days[1]	22	22	23	23

Note:

(1) Calculated as the average monthly balance of trade receivables for the relevant period divided by revenue for the same month and multiplied by the number of days in the month. We believe that this presents the best approximation of average trade receivable turnover days in our operations. If calculated as the average annual balance of trade receivables for the relevant period (which is the sum of the total balance as at the beginning and end of the period divided by two) divided by revenue from external customers for the relevant period and multiplied by 365 days (for the full-year periods) or 183 days (for the six months ended 30 June 2018), our average trade receivable turnover days would have been 53, 64, 57 and 38 days in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively.

We typically provide customers with credit periods ranging from 5 to 21 days from invoice date and receipt of all required shipping documentation. Our average trade receivable turnover days remained stable at 22, 22, 23 and 23 days in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively, which was in line with the credit periods we provide when taking into account the delay in issuing the invoice.

As at 31 August 2018, A$405 million, or 96%, of our trade receivables outstanding as at 30 June 2018 had been settled.

Our other receivables include, among other things, loans to related parties and investments in securities. The table below sets forth a breakdown of our other receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	A$ million			
Receivables from joint venture	331	347	332	274
Receivables from other entities	47	60	61	14
Long service leave receivables	–	–	80	62
Restricted cash	4	32	1	–
Promissory note receivable	21	21	36	38
Advances to controlled entities	2	3	–	–
Other receivables	42	101	81	97
Total other receivables	447	564	591	485

Receivables from other entities represent our investment in securities issued by WICET, including WIPs and GILTs. The WIPs are entitled to an annual dividend of 15%, which can be deferred for up to 7 years. Deferred dividends attract an annual finance charge of 15.75%. There is no scheduled maturity date but there are certain "remarketing dates" whereby the WIPs can be refinanced, the earliest of which is 2023. The GILTs have an effective interest rate of BBSY plus 6% with a maturity date of 30 September 2020. The decrease as at 30 June 2018 was attributable to the partial impairment of the GILTs and the full impairment of the WIPs.

Long service leave receivables represent amounts receivable from the Coal Mining Industry (Long Service Leave) Corporation, an industry fund established to accumulate employer contributions towards eligible employees' long service leave entitlements.

Other receivables primarily include advances to related parties, insurance and fuel rebates and dividends.

Royalty Receivable

Our royalty receivable represents the right to receive a royalty of 4% of FOB trimmed sales from the Middlemount mine as part of our acquisition of Gloucester Coal Limited. The royalty is payable by the Middlemount Joint Venture on 100% of the Middlemount sales. See "*History and Corporate Structure*" for further details. The balance of the royalty receivable was A$205 million, A$199 million, A$199 million and A$198 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively, with A$20 million, A$31 million, A$24 million and A$28 million being due within one year as at each date, respectively. We measure the value of the royalty receivable on a fair value basis by reference to the finite life of the Middlemount mine.

Interest-Bearing Loan to Associate

Our interest-bearing loan to associate arises from the transfer of our interest in the Austar, Ashton and Donaldson mines to Watagan in March 2016 for a purchase price of A$1,363 million (equal to the book value of the three mines at the time). Watagan fully funded the purchase with a A$1,363 million loan from us bearing interest at the bank bill swap bid rate plus 7.06% with a maturity date of 1 April 2025. Watagan can make prepayments of the outstanding loan balance at any time, and any amounts prepaid may be redrawn by Watagan in the future. The balance of the loan was A$775 million, A$712 million and A$730 million as at 31 December 2016 and 2017 and 30 June 2018. The loan is subject to impairment testing under our accounting standards. The outstanding interest and principal of this loan is guaranteed by Yankuang. See "*– Acquisitions, Disposals and Deconsolidation – Watagan Deconsolidation*" for further details.

Asset Classified as Held for Sale

Our assets classified as held for sale as at 30 June 2018 primarily consisted of parcels of non-mining land acquired as part of the C&A Acquisition.

Our assets classified as held for sale as at 31 December 2017 primarily consisted of our 16.6% interest in HVO that we expected to sell to Glencore in the course of establishing a 51:49 unincorporated joint venture with Glencore in relation to HVO, plus a share of certain contingent and non-contingent royalties and adjustments in relation to the C&A Acquisition. See "*Business – Joint Venture Agreements – HVO*" for further details. Our assets held for sale as at 31 December 2017 also included parcels of non-mining land acquired as part of the C&A Acquisition and a portion of our indirect interest in PWCS.

We did not have assets classified as held for sale as at 31 December 2016.

Our assets classified as held for sale as at 31 December 2015 consisted of the Austar, Ashton and Donaldson mines, for which we transferred our interest to Watagan in March 2016. As Watagan was to be deconsolidated from the Group, such mines were classified as held for sale.

Deferred Tax Assets

Our deferred tax assets consist of unused tax losses and tax credits which we carry forward to the extent that our management believes it is probable that taxable profits will be available against which such unused tax losses and credits can be utilised. Our deferred tax assets amounted to A$1,166 million, A$1,339 million, A$1,219 million and A$1,086 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively. There is no expiry date on our ability to utilise such tax losses, although they are subject to the continuous satisfaction of certain tax rules.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on hand. As at 31 December 2015, we also had deposits at call for which the effective interest rate range was up to 2.10%.

Trade and Other Payables

Our trade payables are ordinary course, non-interest-bearing payables owed to our trade suppliers, including rail and port operators, utilities suppliers, equipment suppliers and coal suppliers. The table below sets forth, as at the dates indicated, an ageing analysis of our trade payables, based on the invoice date:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	A$ million			
Due within:				
Less than 90 days	200	257	495	370
More than 90 days	–	–	1	1
Total trade payables	200	257	496	371

The substantial increase as at 30 June 2018 and 31 December 2017 was primarily due to the consolidation of C&A's payables in connection with the C&A Acquisition.

The table below sets forth our average trade payable turnover days for the periods indicated:

	Year ended 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
Average trade payable turnover days[(1)]	27	30	35	37

Note:

(1) Calculated as the average monthly balance of trade payables for the relevant period divided by FOB cash costs (excluding royalties) for the same month and multiplied by the number of days in the month. We believe that this presents the best approximation of average trade payable turnover days in our operations. If calculated as the average annual balance of trade payables for the relevant period (which is the sum of the total balance as at the beginning and end of the period divided by two) divided by revenue from external customers for the relevant period and multiplied by 365 days (for full-year periods) or 183 days (for the six months ended 30 June 2018), our average trade payable turnover days would have been 53, 67, 53 and 34 days in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively.

We typically receive credit periods ranging from 7 to 30 days from our suppliers. Our average trade payable turnover days were 27, 30, 35 and 37 days in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively. Trade payable turnover days increased over the Track Record Period primarily due to an increasing amount of capital creditors with the expansion of Moolarben, together with some delays experienced as part of the change of ownership of C&A. As at 31 August 2018, all of our trade payables outstanding as at 30 June 2018 had been settled.

Our other payables primarily consist of employee costs, interest and bank guarantee fees and Watagan tax payable. The table below sets forth, as at the dates indicated, a breakdown of our other payables and accrued expenses:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
		A$ million		
Employee benefits	36	53	112	85
Interest	28	44	72	100
Bank guarantee fees	28	52	27	74
Watagan tax	–	45	44	70
Other	–	18	7	82
Total other payables	92	212	262	411

Employee benefit payables increased from A$36 million at 31 December 2015 to A$85 million at 30 June 2018 due to our workforce headcount more than doubling during the Track Record Period. Interest and bank guarantee fees payable are primarily impacted by the timing of year end payments. Our level of overall debt has generally remained consistent across the Track Record Period. Watagan tax payable relates to tax losses incurred by Watagan that are transferred up to the parent entity under the Group's tax sharing arrangements. See "*– Significant Factors Affecting Our Results of Operations and Financial Condition – Taxation*" for further details.

Interest-Bearing Liabilities

See "*– Indebtedness*".

Deferred Tax Liabilities

Our deferred tax liabilities arise from temporary differences between accounting and tax reporting. Most our deferred tax losses arise on the treatment of mining tenements where an accounting value is ascertained with the balance reduced over time through amortisation to the profit and loss but no corresponding income tax value is attributed. This is typically due to the asset being eligible for a capital gains tax base rather than an income tax base, or the mining tenement being deemed a first use exploration asset for tax purposes and where we received a 100% deduction in the year of first use. Our deferred tax liabilities amounted to A$692 million, A$762 million, A$1,037 million and A$990 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively.

Provisions

Provisions represent cash outflow obligations for which the amount can be reliably estimated. Our provisions, including both current and non-current provisions, amounted to A$143 million, A$127 million, A$547 million and A$502 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively. Our provisions as at 31 December 2015 and 2016 primarily related to mine rehabilitation costs and take or pay rail and port contracts. Our provisions significantly increased as at 31 December 2017, primarily due to increases in the aforementioned costs as well as provisions for a below market sales

contract and employee benefits, which arose in connection with the C&A Acquisition. Our provisions then decreased as at 30 June 2018, primarily due to the utilisation of provisions during the period and the Glencore Transaction. See note 28 to the Accountants' Report of the Group in Appendix IA to this prospectus.

IMPAIRMENT ASSESSMENT

As described in note 19 to the Accountants' Report of the Group in Appendix IA to this prospectus, an impairment assessment of the carrying value of certain assets is undertaken each reporting period. Goodwill of A$60 million for all periods in the Track Record Period is included in the Yarrabee CGU and is tested through this process. The detailed assumptions are included in note 19 to the Accountants' Report of the Group in Appendix IA to this prospectus. In assessing whether these assets are impaired management utilises external experts and considers these to be reasonable as they are supportable evidence for the assumptions.

In undertaking the impairment assessment the sensitivities are determined as being those that have the greatest impact and are most likely to change in future periods. From the analysis performed the key assumptions are US dollar coal prices, the Australian dollar exchange rate and discount rates. The results of the impairment testing and the key sensitivities considered possible by us are detailed in the table below:

	Year ended 31 December									Six months ended		
	2015			2016			2017			30 June 2018		
	NSW	Yarrabee	Middlemount	NSW	Yarrabee	Middlemount	NSW	Yarrabee	Middlemount	NSW	Yarrabee	Middlemount
	A$'m	*A$'m*	*A$'m*	*A$'m*	*A$'m*	*A$'m*	*A$'m*	*A$'m*	*A$'m*	*A$'m*	*A$'m*	*A$'m*
Book Value	2,418	449	339	2,556	418	310	6,086	434	383	5,844	396	382
Recoverable Amount	3,681	452	472	4,231	783	678	12,294	846	627	12,412	588	723
Head Room	1,263	3	133	1,675	365	368	6,208	412	244	6,568	192	341
US$ Coal Price [1]												
+10%	900	252	190	870	296	193	2,649	423	181	2,564	315	167
-10%	(903)	(270)	(236)	(871)	(300)	(211)	(2,650)	(427)	(199)	(2,570)	(341)	(182)
Exchange Rate [2]												
+5 cents	(485)	(128)	(106)	(474)	(154)	(101)	(1,270)	(210)	(80)	(1,210)	(144)	(71)
-5 cents	557	144	105	543	176	106	1,451	240	83	1,380	159	72
Discount Rate [3]												
+50 bps	(184)	(23)	(16)	(156)	(17)	(12)	(525)	(34)	(11)	(509)	(15)	(11)
-50 bps	197	24	16	165	18	12	565	37	11	548	16	11

Notes:

(1) This represents the change in recoverable amount due to a +/-10% change to our coal price assumptions as detailed in note 19 to to the Accountants' Report of the Group in Appendix IA to this prospectus.

(2) This represents the change in recoverable amount due to a +/-5 cents change to the long-term US$:A$ foreign exchange rate adopted by us as detailed in note 19 to Accountants' Report of the Group in Appendix IA to this prospectus.

(3) This represents the change in recoverable amount due to a +/-50 bps change to the discount rate adopted by us as detailed in note 19 to Accountants' Report of the Group in Appendix IA to this prospectus.

The change in the key sensitivities outlined above are considered reasonably possible changes based on the historical volatility of the long term pricing for foreign exchange and coal prices. We have only adjusted the discount rate by 0.5% in prior periods and this is considered to be a reasonable basis to assess this sensitivity.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity have consisted of operating cash flows, interest-bearing liabilities, including shareholder loans, and new equity. We expect that our cash needs in the near future will primarily relate to organic and inorganic growth opportunities, debt repayments and dividends. We may also continue to seek external debt financing as a supplemental source for our cash needs, in particular to the extent we seek to acquire companies, make strategic investments, materially expand our mine assets or undertake other activities which require substantial capital expenditure, subject to pricing and other market conditions that we consider satisfactory. In addition, the expected proceeds of the Global Offering and the Australian Entitlement Offer will contribute positively to our liquidity position.

During the Track Record Period and as at the Latest Practicable Date, we are and have been in compliance with all material covenants in our financings, and we did not have any material default in payment of payables for trade payables, interest-bearing liabilities or other financing obligations.

Net Current Assets

The table below sets forth, for the dates indicated, a breakdown of our current assets and current liabilities:

	As at 31 December			As at 30 June	As at 31 October
	2015	**2016**	**2017**	**2018**	**2018**
			A$ million		**(unaudited)**
Current assets					
Cash and cash equivalents	154	190	207	485	545
Trade and other receivables	225	435	658	561	418
Inventories	76	75	150	205	208
Royalties receivable	20	31	24	28	24
Non-contingent royalty receivable	–	–	–	18	7
Assets classified as held for sale	1,637	–	613	57	57
Other current assets	12	7	37	16	15
Total current assets	2,124	738	1,689	1,370	1,274

	As at 31 December			As at 30 June	As at 31 October
	2015	2016	2017	2018	2018
			A$ million		(unaudited)
Current liabilities					
Trade and other payables	292	469	758	783	653
Interest-bearing liabilities	11	20	17	17	14
Derivative financial instruments	1	–	–	–	–
Provisions	12	10	59	42	34
Non-contingent royalties payable	–	–	112	64	25
Liabilities directly associated with assets classified as held for sale	322	–	67	–	–
Total current liabilities	638	499	1,013	906	726
Net current assets	1,486	239	676	464	548

We had net current assets of A$1,486 million, A$239 million, A$676 million and A$464 million as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively. As at 31 October 2018, being the latest practicable date for the purposes of this statement, our unaudited net current assets were A$548 million.

Cash Flows

The table below sets forth our cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Net cash (used in)/ generated from operating activities	(108)	(24)	408	282	712
Net cash (used in)/ generated from investing activities	(314)	(466)	(3,449)	(133)	228
Net cash generated from/(used in) financing activities	366	525	3,062	(14)	(698)
Net (decrease)/ increase in cash and cash equivalents	(56)	35	21	135	242

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
			A$ million		
Cash and cash equivalents at the beginning of the year	204	159	190	190	207
Effects of exchange rate changes on cash and cash equivalents	11	(4)	(4)	(8)	36
Transfer to assets held for sale	(5)	–	–	–	–
Cash and cash equivalents at the end of the year	154	190	207	317	485

Net cash (used in)/generated from operating activities

In the six months ended 30 June 2018, we had net cash generated from operating activities of A$712 million, including receipts from customers less payments to suppliers and employees of A$818 million, representing a strong operating performance. Net interest payments were A$74 million. Our profit after income tax of A$361 million included the following significant non-cash adjustments: (i) depreciation and amortisation of non-current assets of A$244 million, (ii) fair value losses recycled from hedge reserve of A$45 million, (iii) impairment expense of A$50 million on investments in WICET and (iv) income tax expense of A$178 million.

In 2017, we had net cash generated from operating activities of A$408 million, including receipts from customers less payments to suppliers and employees of A$683 million, representing a strong operating performance. Net interest payments were A$110 million and stamp duty paid on C&A amounted to A$148 million. Our profit after income tax of A$246 million included the following significant non-cash adjustments: (i) depreciation and amortisation of non-current assets of A$256 million, (ii) fair value losses recycled from hedge reserve of A$229 million, (iii) gain on acquisition of A$177 million, (iv) a reversal of impairment of mining tenements of A$100 million, (v) provision releases of A$87 million and (vi) income tax expense of A$89 million.

In 2016, we had net cash used in operating activities of A$24 million, including receipts from customers less payments to suppliers and employees of A$78 million representing a positive operating performance. Net interest payments were A$95 million. Our loss after income tax of A$227 million included the following significant non-cash adjustments: (i) depreciation and amortisation of non-current assets of A$133 million, (ii) fair value losses recycled from hedge reserve of A$133 million and (iii) income tax benefit of A$85 million.

In 2015, we had net cash used in operating activities of A$108 million including receipts from customers less payments to suppliers and employees of A$29 million representing a positive operating performance. Net interest payments were A$119 million. Our loss after income tax of A$291 million included non-cash adjustments for (i) depreciation and amortisation of non-current assets of A$200 million and (ii) income tax benefit of A$63 million.

Net cash used in investing activities

In the six months ended 30 June 2018, we had net cash used in investing activities of A$228 million, primarily due to proceeds from the Glencore Transaction of A$524 million, partially offset by consideration paid on the Warkworth Transaction of A$276 million and payments of property, plant and equipment of A$71 million, which were mainly in connection with Moolarben and MTW.

In 2017, we had net cash used in investing activities of A$3,449 million, primarily due to (i) payments for the acquisition of C&A of A$3,247 million (net of cash acquired) and (ii) payments for property, plant and equipment of A$299 million.

In 2016, we had net cash used in investing activities of A$466 million, primarily due to payments of property, plant and equipment of A$353 million, including the Moolarben expansion.

In 2015, we had net cash used in investing activities of A$314 million, primarily due to payments for property, plant and equipment of A$290 million, including the Moolarben expansion.

Net cash generated from financing activities

In the six months ended 30 June 2018, we had net cash outflow from financing activities of A$698 million, primarily due to repayment of interest-bearing liabilities of US$500 million of our secured bank loan.

In 2017, we had net cash generated from financing activities of A$3,062 million, primarily due to (i) proceeds from the issues of shares and other equity securities of A$3,125 million, which were raised to finance the acquisition of C&A and (ii) proceeds from interest-bearing liabilities of related entities of A$188 million relating to our draw down of credit facilities provided by Yanzhou, partially offset by (i) repayment of interest-bearing liabilities of A$196 million paying down US$150 million of our secured bank loan and (ii) a net repayment of borrowings from associate of A$63 million being the net repayment received from Watagan repaying a portion of the loan used to purchase interests in the Austar, Ashton and Donaldson mines from us.

In 2016, we had net cash generated from financing activities of A$525 million, primarily due to (i) repayment of borrowings from associate of A$623 million, which related to Watagan repaying a portion of the loan used to purchase interests in the Austar, Ashton and Donaldson mines from us and (ii) proceeds from interest-bearing liabilities of related entities of A$251 million, which related to our draw down of credit facilities provided by Yanzhou, partially offset by (i) repayment of interest-bearing liabilities of A$198 million and (ii) payment of subordinated capital notes distribution of A$100 million, which consisted of coupon payments on SCNs issued by our wholly-owned subsidiary, Yancoal SCN in 2014, for which we were the guarantor on a subordinated basis.

In 2015, we had net cash generated from financing activities of A$366 million, primarily due to proceeds from interest-bearing liabilities of related entities of A$402 million, which related to our draw down of credit facilities provided by Yanzhou.

Working Capital Sufficiency

After taking into consideration the financial resources available to us, including operating cash flows, revolving credit facilities and the estimated net proceeds of the Global Offering, in the absence of unforeseeable circumstances, the Directors confirm that we have sufficient working capital to satisfy 125% of our present liquidity and capital resource needs (including general, administrative and operating costs, property holding costs and the cost of any proposed exploration and/or development, as well as any interest and loan repayment costs in connection therewith) over the next 12 months from the date of this prospectus.

Our liquidity and capital resource needs over the next 12 months primarily include organic and inorganic growth opportunities, debt repayments and dividends. We expect to be able to finance these capital requirements with operating cash flows, interest-bearing liabilities and the expected proceeds from the Global Offering. Our ability to obtain additional funding beyond our anticipated cash needs for the next 12 months following the date of this prospectus, however, is subject to a variety of uncertainties, including our future results of operations, our future business plans, financial condition and cash flows and economic, political and other conditions in the markets where we and our customers and lenders operate.

INDEBTEDNESS

During the Track Record Period, we had indebtedness primarily in the form of interest-bearing loans from banks and related parties. The table below sets forth a breakdown of our overall indebtedness as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2015	**2016**	**2017**	**2018**	**2018**
			A$ million		
					(unaudited)
Current indebtedness					
Secured bank loans	7	–	–	–	–
Secured lease liabilities	4	20	17	17	14
Non-current indebtedness					
Secured bank loans	3,751	3,593	3,117	2,622	2,562
Secured lease liabilities	27	47	38	34	31
Unsecured loans from related parties	943	1,290	1,527	1,611	1,504
Total indebtedness	4,732	4,950	4,699	4,284	4,111

The above table includes an amount of A$24 million, A$16 million and A$14 million as at 31 December 2017, 30 June 2018 and 31 October 2018, respectively, with respect to the fair value gain on the refinancing of secured bank loans recognised during 2017 on the adoption of IFRS 9. This amount will continue to unwind to the statement of profit and loss up to the date of maturity, at which time the full face value of the secured bank loans will be recognised. The adoption of IFRS 9 has not had, and is not expected to have, a significant impact on our financial position or performance.

The table below sets forth a maturity profile of our overall indebtedness as at the dates indicated, excluding the impact of the fair value gain noted above:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	A$ million			
Indebtedness repayable within:				
Less than one year	11	20	17	17
One to two years	80	12	12	415
Two to five years	1,329	2,439	3,316	2,414
Five or more years	3,312	2,479	1,378	1,454
Total indebtedness	4,732	4,950	4,723	4,300

Secured Bank Loans

Syndicated Facility

Secured bank loans primarily represent a syndicated loan facility with a maximum credit limit of US$2,900 million that we executed in 2009 ("**Syndicated Facility**") with Bank of China Limited, Sydney Branch, China Development Bank Limited, Hong Kong Branch, and China Construction Bank Limited, Hong Kong Branch. The Syndicated Facility was fully drawn at inception. US$100 million was fully repaid to China Development Bank in 2012, US$100 million in 2013 and US$99 million in 2014. As at each of 31 December 2015 and 2016, the Syndicated Facility was drawn to US$2,600 million. Our balance as at 31 December 2017 included a repayment of US$150 million which reduced the facility balance to US$2,450 million. We made further repayments of US$450 million in May 2018 and US$50 million in June 2018, resulting in an outstanding balance of US$1,950 million as at 30 June 2018. We subsequently repaid another US$300 million in August 2018 using loans drawn down from a US$300 million term debt facility from certain banks which are party to the A$1,000 million bank guarantee facility from a syndicate of seven domestic and international banks. This resulted in an outstanding balance of US$1,650 million on the Syndicated Facility. We further repaid an additional US$75 million on 17 September 2018 and US$50 million on 17 October 2018 using excess cash flows generated from operations. Other fluctuations in the balance of the Syndicated Facility over the Track Record Period were primarily attributable to the strengthening of the Australian dollar against the US dollar over this period. The Syndicated Facility matures in installments, with approximately 45% due in 2020, 29% in 2021, and 26% due in 2022.

The Syndicated Facility is fully secured by a corporate guarantee provided by Yanzhou. Key financial covenants of the Syndicated Facility include:

(i) an interest coverage ratio of not less than 1.40 (which was adjusted from 1.15 following the C&A Acquisition);

(ii) a gearing ratio of not more than 0.75 (adjusted from 0.80 following the C&A Acquisition); and

(iii) consolidated net worth of the Group of not less than A$3 billion (adjusted from A$1.6 billion following the C&A Acquisition).

In addition, the Syndicated Facility requires us to maintain the following minimum deposit balance requirements with the syndicate lending banks:

(i) an aggregate daily average balance of not less than A$25 million, tested at the end of each month; and

(ii) an aggregate end of month balance of not less than A$50 million.

We did not have any breach of the financial covenants of the Syndicated Facility during the Track Record Period.

The effective interest rate on our loans drawn under the Syndicated Facility (all-in including a guarantee fee to Yanzhou and an extension fee) in 2015, 2016 and 2017 and the six months ended 30 June 2018 was 6.45%, 7.29%, 7.93% and 8.42%, respectively.

Other secured loans

Our secured bank loans during the Track Record Period also included:

(i) a bilateral loan facility of US$140 million with Bank of China Limited, Sydney Branch, which was fully drawn down as at 16 December 2015 and, on 31 December 2016, was fully repaid and restructured to a bank guarantee facility with the same limit. The effective interest rate (inclusive of a guarantee fee to Yanzhou and an extension fee to Bank of China) for 2015 and 2016 was 6.45% and 7.29%, respectively;

(ii) a working capital facility of A$50 million with Industrial and Commercial Bank of China Limited, Sydney Branch taken out in 2015 for working capital and capital expenditure purposes, which was matured and cancelled in March 2016. The facility was priced at base rate (LIBOR or BBSY) plus loan margin of 3.00% or 2.70% for US$ or A$ drawings, respectively, and an undrawn fee of 0.5%. No outstanding was drawn under the facility as at 31 December 2015 and 2016. The effective interest rate was 7.61% in 2015 and 7.27% in 2016, in each case including a guarantee fee to Yanzhou;

(iii) a bank guarantee facility of A$100 million with Industrial and Commercial Bank of China Limited, Sydney Branch taken out in 2014, which was cancelled in June 2017. The facility was fully drawn as at 31 December 2015 and 2016. In each of 2015 and 2016, there was an annual guarantee fee to Yanzhou and an issuance fee to Industrial and Commercial Bank of China; and

(iv) a chattel mortgage facility of US$21.7 million with Australia and New Zealand Banking Corporation Limited, of which A$5.6 million was drawn down as at 31 December 2015 and was fully repaid and cancelled as at 31 December 2016. The effective interest rate for 2015 and 2016 was 5.89% and 5.89%, respectively.

Secured Lease Liabilities

Our secured lease liabilities represent loans obtained under finance lease facilities entered with Komatsu, one of our mining equipment suppliers. These facilities enable us to purchase mining equipment from Komatsu with security over the equipment purchased. As at 31 December 2015, 2016 and 2017 and 30 June 2018, our finance lease facilities had an aggregate limit of A$50 million, A$100 million, A$100 million, A$100 million, respectively, of which we had drawn down A$31 million, A$67 million, A$55 million and A$51 million as at the same dates, respectively, at an effective interest rate of 5.22%, 5.13%, 5.10% and 5.00%.

Unsecured Loans from Related Parties

During the Track Record Period, we had two long-term unsecured loan facilities in place from Yanzhou, as follows:

(i) A facility with a credit limit of A$1,400 million used to fund working capital and capital expenditure needs, maturing in December 2024. As at 31 December 2015, 2016 and 2017 and 30 June 2018, our balance of amounts drawn down under this facility was A$684 million, A$942 million, A$1,066 million and A$1,125 million, respectively.

(ii) A facility with a credit limit of US$807 million used to finance coupon payments on SCNs issued by Yancoal SCN, in December 2014 for which we were the guarantor on a subordinated basis. This facility matures in December 2024. As at 31 December 2015, 2016 and 2017, our balance of amounts drawn down under this facility was A$100 million, A$188 million and A$312 million, respectively. On 31 January 2018, at the request of certain eligible holders of the SCNs, a portion of the SCNs were converted into equity of the Company while the outstanding SCNs were redeemed in full by Yancoal SCN on 31 January 2018. From this date, the facility limit was reduced to US$243 million, which remains the drawn down amount as at 30 June 2018.

Both credit facilities from Yanzhou are unsecured subordinated loans with a term of ten years (maturing in December 2024, at which time the principal is repayable), and have no covenants. The effective interest rate was 7.00% for each of 2015, 2016 and 2017 and the six months ended 30 June 2018.

In addition, we also have a US$550 million unsecured credit facility from Yancoal International Resources Development Co., Ltd. ("**Yancoal International**"), which is wholly owned by Yanzhou. The facility was fully drawn down in 2012 to fund the acquisition of Gloucester Coal Limited. See "*History and Corporate Structure* "for further details. We repaid US$434 million in December 2014, leaving a balance of US$116 million which was outstanding as at each of 31 December 2015, 2016 and 2017 and 30 June 2018, and is repayable in May 2022. The effective interest rate was 7.70% for each of 2015, 2016 and 2017 and the six months ended 30 June 2018.

Furthermore, we have received letters of support from Yanzhou under which Yanzhou, among other things, acknowledged the major acquisitions and other transactions that we have undertaken, including the C&A Acquisition, Glencore Transaction and Warkworth Transaction (and the financing needed in connection with certain transactions), and confirmed that it would provide ongoing financial support to us if needed to enable us to pay our debts as and when they fall due. Yanzhou may revoke such support by giving 24 months' notice to us. We have completed post-closing working

capital adjustments for the C&A Acquisition, Glencore Transaction and Warkworth Transaction, and expect to be able to settle the remaining consideration payable for the C&A Acquisition, which is attributable to non-contingent royalties' liabilities, with our cash on hand and without credit support from Yanzhou.

Subordinated Capital Notes

On 31 December 2014, Yancoal SCN, our wholly-owned subsidiary, issued 18,005,102 SCNs at US$100 each, raising a total of A$2.3 billion, which we used primarily to repay loans from Yanzhou and its subsidiaries and improve our capital structure. The SCNs were perpetual, subordinated (with respect to our secured bank loans and related party loans from Yancoal International of US$116 million), unsecured capital notes, guaranteed by the Company on a subordinated basis and each convertible into 1,000 ordinary shares of the Company and listed on the ASX. SCN holders were entitled to receive 7% per annum fixed rate distribution payments payable semi-annually in arrears. Distributions amounted to A$186 million, A$171 million and A$79 million in 2015, 2016 and 2017, respectively. On 31 August 2017, Yanzhou, which held the substantial majority of the SCNs, converted all its SCN holdings, resulting in us issuing 18,000,031,000 new ordinary shares to Yanzhou. A further 150,943 new ordinary shares were issued on conversion of 80 SCNs, and 3,015,976 new ordinary shares were issued in January 2018 on the conversion of 1,606 SCNs by other eligible holders. We subsequently redeemed all outstanding SCNs in February 2018 at the face value plus a final distribution. Yancoal SCN was then delisted from the ASX.

Bank Guarantee Facilities

We have obtained a number of bank guarantee facilities to provide guarantees in favour of certain counterparties, including port, rail, government departments and other operational functions, in respect of their activities involving us, Yanzhou, other related parties, and joint ventures. As at 31 December 2015, 2016 and 2017 and 30 June 2018, we had total bank guarantee facilities of A$522 million, A$486 million, A$1,000 million and A$1,000 million (plus an additional US$95 million as at both 31 December 2017 and 30 June 2018), respectively, of which A$458 million, A$441 million, A$1,041 million and A$894 million were utilised as at the same dates. These facilities consisted of the following:

- as at 31 December 2015, our bank guarantee facilities included (i) A$350 million from a syndicate of Australian banks, of which A$299 million was utilised, secured by the Yarrabee, Ashton and Moolarben mines, (ii) A$125 million from the Industrial and Commercial Bank of China, of which A$122 million was utilised, secured by a corporate guarantee of A$100 million from Yanzhou and A$2.5 million of cash collateral and (iii) A$47 million from the Bank of China, of which A$37 million was utilised, secured by a letter of comfort from Yanzhou;

- as at 31 December 2016, our bank guarantee facilities included (i) A$93 million from a syndicate of Australian banks, (ii) A$268 million from the Bank of China, of which A$228 million was utilised, secured by cash collateral of A$28 million, a corporate guarantee of US$140 million from Yanzhou and a letter of comfort for A$47 million from Yanzhou and (iii) A$125 million from the Industrial and Commercial Bank of China, of which A$121 million was utilised, secured primarily by a corporate guarantee of A$100 million from Yanzhou and A$2.5 million of cash collateral;

- as at 31 December 2017, our bank guarantee facilities included (i) A$1,000 million from a syndicate of seven domestic and international banks, of which A$935 million was utilised, secured by Yarrabee and Moolarben mine assets and C&A assets and (ii) US$95 million from the Bank of China, of which A$106 million was utilised, secured by corporate guarantees of A$100 million from Yanzhou and A$2.5 million of cash collateral; and
- as at 30 June 2018, our bank guarantee facilities included (i) A$1,000 million from a syndicate of seven domestic and international banks, of which A$793 million was utilised, secured by Yarrabee and Moolarben mine assets and C&A assets and (ii) US$95 million from the Bank of China, of which A$101 million was utilised, secured by corporate guarantees of US$95 million from Yanzhou and A$2.5 million of cash collateral. On 20 August 2018, we obtained a US$300 million term debt facility from certain of these banks, which we fully drew down on 23 August 2018 to repay a portion of the Syndicated Facility.

The syndicate bank guarantee facility as at 30 June 2018 includes the following key financial covenants that we are required to maintain, tested semi-annually:

(i) an interest coverage ratio of more than 5.0 times;

(ii) a finance debt to EBITDA ratio of less than 3.0 times; and

(iii) net tangible assets of more than A$1,500 million (adjusted from A$600 million following the C&A Acquisition).

We did not have any breach of the above covenants during the Track Record Period. The bank guarantee facilities from the Bank of China and ICBC did not have any financial covenants.

Indebtedness Statement

As at 31 October 2018, being the latest practicable date for the purpose of the indebtedness statement:

- the total balance of our interest-bearing liabilities on demand or due within one year was A$14 million;
- the total balance of our interest-bearing liabilities due after one year was A$4,097 million;
- we had nil unutilised credit facilities and unutilised bank guarantee facilities of approximately A$269 million, which were committed and without uncommon restriction on utilisation; and
- other than as disclosed in *"– Indebtedness"* and *"– Contingent Liabilities"*, and with respect to certain financing arrangements in relation to Watagan and WICET (see "*Risk Factors-We will be required to re-consolidate Watagan once we re-acquire control of it, which could result in adverse consequences to our financial condition and results of operations*" and "*Risk Factors – Our investments in, and obligations with respect to, the Wiggins Island Coal Export Terminal may be adversely impacted by, among other things, the insolvency of its other shareholders*", respectively, for further details) we had no other debt securities, borrowings, debts, mortgages, contingent liabilities or guarantees.

Since 30 June 2018, other than as disclosed above, there has been no material adverse change to our indebtedness.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had certain transactions with related parties, including the following:

- sales of goods and services to related parties (including primarily Noble Group (in 2015, 2016 and 2017), Watagan and Yancoal International) amounting to A$274 million, A$281 million, A$285 million and A$23 million in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively;

- purchases of goods and services from related parties (including primarily Watagan and Syntech Resources) amounting to A$9 million, A$79 million, A$200 million and A$61 million in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively (the increase was largely attributable to coal purchased from Watagan as produced at the Austar, Ashton and Donaldson mines);

- advances and loans, net of repayments, to related parties of less than A$1 million in 2015 and A$810 million in 2016 (primarily consisting of a loan to Watagan in connection with the transfer of interest in the Austar, Ashton and Donaldson mines) and repayments from related parties (net of advances and loans to related parties) of A$98 million in 2017 and A$47 million in the six months ended 30 June 2018;

- loans from related parties (including primarily Yanzhou and Yancoal International) of A$501 million, A$352 million, A$330 million and nil in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively;

- finance costs attributable to related parties of A$44 million, A$76 million, A$91 million and A$47 million in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively, primarily consisting of interest accrued or paid on loans from Yanzhou and Yancoal International;

- finance income attributable to related parties of A$19 million, A$94 million, A$95 million and A$43 million in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively, primarily consisting of interest income on loans to Watagan and Middlemount;

- other costs attributable to related parties of A$171 million, A$173 million, A$212 million and A$113 million in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively, primarily consisting of corporate guarantee fees accrued or paid to Yanzhou and port charges paid to NCIG; and

- other income attributable to related parties of A$20 million, A$63 million, A$83 million and A$44 million in 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively, primarily consisting of mining management and service fees from Watagan and royalty income from Middlemount.

See note 37 to the Accountants' Report of the Group in Appendix IA to this prospectus for further details.

CAPITAL EXPENDITURE

The table below sets forth, for the periods indicated, a breakdown of our capital expenditure during the Track Record Period, including transfers from assets under construction:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	A$ million			
Plant and equipment	5	3	12	–
Mine development	47	14	21	10
Assets under construction	281	316	303	69
Leased plant and equipment	–	50	9	5
Total capital expenditure	333	383	345	84

Assets under construction generally relate to ongoing construction projects, such as the Moolarben expansion, whereby the capital expenditure is classified as assets under construction until the assets are "in use". At this time the spend is transferred out of assets under construction to the appropriate category. These reclassifications are shown in the table below.

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	A$ million			
Plant and equipment	110	126	240	(102)
Mine development	186	92	308	138
Freehold land and buildings	8	1	27	5
Assets under construction	(304)	(219)	(575)	(41)
Net	–	–	–	–

We have financed our capital expenditure primarily through operating cash flows, increases in interest-bearing liabilities and repayments of the loan due from Watagan and may in the future use these sources as well as the proceeds from the Global Offering as we pursue acquisition opportunities.

COMMITMENTS

The table below sets forth, as at the dates indicated, our future minimum payments under non-cancellable commitments:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	A$ million			
Not later than 1 year				
Property, plant and equipment	15	139	33	36
Non-cancellable operating leases	5	25	38	26
Finance leases	11	24	19	19
Later than 1 year but not later than 5 years				
Non-cancellable operating leases	1	67	149	73
Finance leases	26	53	42	37
Later than 5 years	–	–	–	78
Total commitments	58	308	281	269

Our operating lease commitments include mining equipment, office space, and office equipment. Such leases typically run for periods of one month to five years with an option to renew at the expiry of the lease period.

Our finance lease commitments generally include mining equipment and other machinery. Such leases typically run for periods of approximately five years.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we had the following contingent liabilities:

(i) bank guarantees in favour of certain of counterparties, including port, rail, government departments and other operational functions, in respect of their activities involving us, Yanzhou, other related parties, and joint ventures. See "*– Indebtedness – Bank guarantee facilities*" for further details;

(ii) a letter of support to Middlemount, our incorporated joint venture, under which we agree to (a) not demand repayment of any loan from Middlemount except under certain conditions and (b) provide financial support to Middlemount in the form of shareholder loans in proportion to our share of the net assets of Middlemount in order for Middlemount to meet its debt obligations. See "*Business – Marketing and Sales Arrangements – Middlemount*" for further details;

(iii) various claims relating to personal injury and contractual obligations which we become party to in the ordinary course of business. See "*Business – Health, Safety and Environmental Matters*" for further details. Our insurance policies have largely covered the personal injury claims, and we do not expect the claims against us in any event to have a material impact on our financial position; and

(iv) certain disputes involving us and members of the Noble Group, for which the relevant proceedings are at an early stage. See "*Business – Legal Proceedings and Non-Compliance*" for further details.

KEY FINANCIAL RATIOS

The table below sets forth, as at the dates and for the periods indicated, certain of our key financial ratios:

	As at or for the year ended 31 December			As at or for the six months ended 30 June
	2015	2016	2017	2018
Return on assets[1]	(3.8)%	(2.9)%	2.5%	6.0%[4]
Return on equity[2]	(13.9)%	(14.9)%	7.7%	14.0%[4]
Gearing ratio[3]	2.80x	3.66x	0.93x	0.81x

Notes:

(1) Return on assets is calculated by dividing profit after income tax by average total assets and multiplying the resulting value by 100%. Average total assets equal total assets at the beginning of the period plus total assets as at the end of the period, divided by two.

(2) Return on equity is calculated by dividing profit after income tax by average total equity and multiplying the resulting value by 100%. Average total equity equals total equity at the beginning of the period plus total equity as at the end of the period, divided by two.

(3) Gearing ratio is calculated as gross debt divided by total equity at the end of the period. Gross debt consists of the total balance of interest-bearing liabilities as at the end of the period.

(4) On an annualised basis.

Return on Assets

Our return on assets ratio increased from (3.8)% in 2015 to (2.9)% in 2016, primarily due to a decrease in loss after income tax over this period, and further increased to 2.5% in 2017, primarily due to becoming profit-making over this period. Our return on assets ratio subsequently increased to 6.0% in the six months ended 30 June 2018 (on an annualised basis), primarily due to our increased profitability.

Return on Equity

Our return on equity ratio decreased from (13.9)% in 2015 to (14.9)% in 2016, primarily due to a decrease in average total equity over this period, partially offset by a decrease in loss after income tax. Our return on equity ratio then increased to 7.7% in 2017, primarily due to becoming profit-making over this period, partially offset by a significant increase in total average equity largely due to the C&A Acquisition. Our return on equity ratio subsequently increased to 14.0% in the six months ended 30 June 2018 (on an annualised basis), primarily due to our increased profitability.

Gearing Ratio

Our gearing ratio increased from 2.80x as at 31 December 2015 to 3.66x as at 31 December 2016, primarily due to a decrease in total equity. Our gearing ratio then decreased to 0.93x as at 31 December 2017, primarily due to a significant increase in total equity largely due to the C&A Acquisition. Our gearing ratio subsequently decreased to 0.81x as at 30 June 2018.

RECENT DEVELOPMENTS OF OUR BUSINESS SUBSEQUENT TO THE TRACK RECORD PERIOD

Since 30 June 2018, the following material changes have occurred:

(i) we have entered into an agreement with KORES, subject to satisfaction of certain conditions precedent, for the Moolarben Acquisition. We intend to finance the Moolarben Acquisition with a portion of the expected proceeds from the Global Offering. See "*Future Plans and Use of Proceeds*" for further details; and

(ii) on 20 August 2018, we obtained a US$300 million term debt facility from certain banks which are party to our A$1,000 million bank guarantee facility from a syndicate of seven domestic and international banks. On 23 August 2018, we fully drew down the US$300 million under this facility. We used this amount to repay a portion of the Syndicated Facility, resulting in an outstanding balance on the Syndicated Facility of US$1,650 million. On 17 September 2018 and 17 October 2018, respectively, we further repaid US$150 million of our debt (US$75 million on the Syndicated Facility and US$75 million on our unsecured loans from related parties) and US$100 million of our debt (US$50 million on the Syndicated Facility and US$50 million on our unsecured loans from related parties) using excess cash flows generated from operations.

As far as the Directors are aware, other than as disclosed above, there have not been any material changes in our operations, nor in the general economic and market conditions in the regions or the industries in which we operate that materially and adversely affected our business operations or financial condition since 30 June 2018 and up to the date of this prospectus, and no material changes have occurred since the effective date of the Competent Person's Report.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ON MARKET RISK

We are exposed to financial risks arising from our operations and the use of financial instruments. The key financial risks include credit risk, currency risk, interest rate risk and liquidity risk. The Board reviews and agrees policies and procedures for management of these risks.

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to us. As at 31 December 2015, 2016 and 2017 and 30 June 2018, our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties and financial guarantees provided by us is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liabilities in relation to financial guarantee issued by us.

In order to minimise the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our credit risk is significantly reduced. We maintain our cash and cash equivalents with reputable banks. Therefore, Directors consider that the credit risk for such is minimal.

We generally grant customers with long-relationships credit terms not exceeding 90 days, depending on the situations of the individual customers. For small to medium sized new customers, we generally require them to pay for the products before delivery.

See note 34(b) to the Accountants' Report of the Group in Appendix IA to this prospectus for further details on our counterparties.

Currency Risk

Our sales and finance costs are denominated mainly in United States dollars, while operating costs are mainly denominated in the group's functional currency, the Australian dollar. Accordingly, there is a significant exposure to transactional foreign currency risk.

See note 34(b) to the Accountants' Report of the Group in Appendix IA to this prospectus for further details on our foreign currency exposure and a sensitivity analysis of the impact of hypothetical increases and decreases in the Australian dollar against relevant foreign currencies.

Interest Rate Risk

We are exposed to cash flow interest rate risk in relation to variable-rate bank balances, term deposits, restricted cash and variable rate borrowings. Our cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rate arising from our A$ borrowings and the LIBOR arising from our US$ borrowings.

See note 34(b) to the Accountants' Report of the Group in Appendix IA to this prospectus for a sensitivity analysis of the impact of hypothetical increases and decreases in interest rates.

Liquidity Risk

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance our operations and mitigate the effects of fluctuations in cash flows. Our management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

See note 34(b) to the Accountants' Report of the Group in Appendix IA to this prospectus for further details on the remaining contractual maturity for our financial liabilities.

DIVIDENDS AND DIVIDEND POLICY

We did not declare or pay any dividends during the Track Record Period. On 15 August 2018, we declared a dividend of approximately A$130 million on our ordinary shares, which was paid on 21 September 2018. Subject in each case to applicable laws, the ongoing cash needs of the business, the statutory and common law duties of the Directors and shareholders' approval, the Directors may pay interim and/or final dividends, and in accordance with our Constitution must:

(i) subject to (ii) below, pay as interim and/or final dividends not less than 40% of net profit after tax (pre-abnormal items) in each financial year; and

(ii) if the Directors determine that it is necessary in order to prudently manage our financial position, pay as interim and/or final dividends not less than 25% of net profit after tax (pre-abnormal items) in any given financial year.

Our Australian legal advisers have advised that under Australian law, a company is able to pay dividends out of current year profits even though it has accumulated losses, and there is no restriction in our Constitution that would prevent current year profits from being paid out as dividends in this way. Accordingly, the Company's accumulated losses do not prevent it from being able to pay dividends, provided that current year profits are not used to offset prior period losses and the Company is otherwise able to satisfy the other legal requirements of paying a dividend under Australian law. As a result, the amount of any dividends to be declared or paid will depend on, among other things, our results of operations, cash flows, financial condition, operating and capital requirements and applicable laws and regulations.

DISTRIBUTABLE RESERVES

As at 30 June 2018, we did not have any distributable reserves as we did not have positive retained earnings as at such date.

LISTING EXPENSES

Total expenses (including estimated underwriting commissions) expected to be incurred in relation to the Listing are A$37.4 million (HK$214.5 million), of which approximately A$29.7 million (HK$170.3 million) is expected to be charged to the consolidated statement of profit or loss of the Group and approximately A$7.7 million (HK$44.2 million) is expected to be capitalised.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and as at the Latest Practicable Date, other than as disclosed in "– *Indebtedness*", we had no material off-balance sheet arrangements.

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The table below sets forth selected unaudited pro forma combined income statement data for the year ended 31 December 2017 and the six months ended 30 June 2018 as if the Pro Forma Transactions had been completed on 1 January 2017. Such pro forma financial information has been prepared using the procedures and adjustments as described in more detail in Appendix IIB to this prospectus, and should be read in conjunction with the related notes thereto.

		Pro forma adjustments[(1)] for		
	The audited Group for the six months ended 30 June 2018[(2)]	Acquisition of additional 28.9% interest in Warkworth	Disposal of 16.6% interest in HVO	Unaudited pro forma consolidated statement of profit or loss of the Group for the six months ended 30 June 2018
		A$ million		
Revenue	2,347	48	(89)	2,306
Other income	115	–	(78)	37
Changes in inventories of finished goods and work in progress	24	1	–	25
Raw materials and consumables used	(337)	(9)	18	(328)
Employee benefits	(254)	(5)	10	(249)
Depreciation and amortisation	(244)	(4)	–	(248)
Transportation	(274)	(3)	7	(270)
Contractual services and plant hire	(206)	(5)	11	(200)
Government royalties	(161)	(4)	7	(158)
Coal purchases	(182)	–	–	(182)
Other operating expenses	(170)	–	3	(167)
Finance costs	(152)	–	(1)	(153)
Share of profit of equity-accounted investees, net of tax	33	–	–	33
Profit before income tax	539	19	(112)	446
Income tax expenses	(178)	(6)	34	(150)
Profit for the period	361	13	(78)	296

			Pro forma adjustments[1] for			
	The audited Group for the year ended 31 December 2017	Audited C&A for the eight months ended 31 August 2017	Adjustment for acquisition accounting on C&A Acquisition, including 55.6% interest in Warkworth & 67.6% interest in HVO	Acquisition of additional 28.9% interest in Warkworth	Disposal of 16.6% interest in HVO	Unaudited pro forma consolidated statement of profit or loss of the Enlarged Group for the year ended 31 December 2017
			A$ million			
Revenue	2,601	1,424	46	261	(288)	4,044
Other income	325	26	–	–	78	429
Changes in inventories of finished goods and work in progress	7	(11)	–	3	(2)	(3)
Raw materials and consumables used	(349)	(274)	–	(50)	56	(617)
Employee benefits	(302)	(140)	–	(33)	27	(448)
Depreciation and amortisation	(256)	(78)	(97)	(27)	–	(458)
Transportation	(312)	(110)	26	(19)	20	(395)
Contractual services and plant hire	(274)	(169)	–	(26)	39	(430)
Government royalties	(173)	(111)	–	(21)	23	(282)
Coal purchases	(340)	–	–	–	–	(340)
Other operating expenses	(330)	(26)	–	(19)	7	(368)
Finance costs	(294)	(3)	(10)	–	1	(306)
Share of profit of equity-accounted investees, net of tax	32	(16)	–	–	–	16
Profit/(Loss) before income tax	335	512	(35)	69	(39)	842
Income tax expense/(benefit)	(89)	169	(320)	(20)	12	(248)
Profit/(Loss) for the year	246	681	(355)	49	(27)	594

Notes:

(1) See the Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group in Appendix IIB to this prospectus for further details on the adjustments for the Pro Forma Transactions.

(2) Includes the financial results of C&A for the six months ended 30 June 2018.

Our pro forma combined income statement is not necessarily representative of our results of operations and changes in liquidity and capital resources as they would have appeared in our financial statements had the Pro Forma Transactions occurred during the year ended 31 December 2017 or the six months ended 30 June 2018.

Revenue

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual revenue in the six months ended 30 June 2018, our pro forma revenue in the six months ended 30 June 2018 would have slightly decreased by 1.7% to A$2,306 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual revenue in 2017, our pro forma revenue in 2017 would have increased by 55.5% to A$4,044 million, primarily due to the substantial revenue generated by C&A.

Other Income

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, our pro forma other income in the six months ended 30 June 2018 would have decreased by 67.8% to A$37 million compared to our actual other income in the six months ended 30 June 2018, primarily due to the derecognition of the A$78 million gain on disposal with respect to the Glencore Transaction included in the 2017 pro forma income statement.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual other income in 2017, our pro forma other income in 2017 would have increased by 32% to A$429 million, primarily due to a A$78 million gain on disposal with respect to the Glencore Transaction and A$26 million of other income recognised by C&A. The gain is subject to finalisation of the purchase price for the Glencore Transaction.

Raw Materials and Consumables Used

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual raw materials and consumables used in the six months ended 30 June 2018, our pro forma raw materials and consumables used in the six months ended 30 June 2018 would have decreased by 2.7% to A$328 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual raw materials and consumables used in 2017, our pro forma raw materials and consumables used in 2017 would have increased by 76.8% to A$617 million, primarily due to the significant scale of C&A's production operations.

Employee Benefits

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual employee benefits expenses in the six months ended 30 June 2018, our pro forma employee benefits expenses in the six months ended 30 June 2018 would have decreased by 2.0% to A$249 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual employee benefits expenses in 2017, our pro forma employee benefits expenses in 2017 would have increased by 48.3% to A$448 million, primarily due to the addition of C&A's headcount.

Depreciation and Amortisation

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual depreciation and amortisation expenses in the six months ended 30 June 2018, our pro forma depreciation and amortisation expenses would have increased by 1.6% to A$248 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual depreciation and amortisation expenses in 2017, our pro forma depreciation and amortisation expenses would have increased by 78.9% to A$458 million, primarily due to the addition of the depreciation of C&A's plant, property and equipment and the amortisation of mining tenements recognised by the Company as part of the C&A Acquisition.

Transportation

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual transportation expenses in the six months ended 30 June 2018, our pro forma transportation expenses in the six months ended 30 June 2018 would have slightly decreased by 1.5% to A$270 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual transportation expenses in 2017, our pro forma transportation expenses in 2017 would have increased by 26.6% to A$395 million, primarily due to C&A's substantial transportation needs in connection with its operations.

Contractual Services and Plant Hire

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual contractual services and plant hire in the six months ended 30 June 2018, our pro forma contractual services and plant hire expenses in the six months ended 30 June 2018 would have decreased by 2.9% to A$200 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual contractual services and plant hire in 2017, our pro forma contractual services and plant hire expenses in 2017 would have increased by 56.9% to A$430 million, primarily due to the addition of C&A's contractor headcount.

Government Royalties

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual government royalties in the six months ended 30 June 2018, our pro forma government royalties would have slightly decreased by 1.9% to A$158 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual government royalties in 2017, our pro forma government royalties expenses in 2017 would have increased by 63.0% to A$282 million, primarily due to the addition of royalties imposed on C&A's coal output.

Coal Purchases

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual coal purchases in 2017 and the six months ended 30 June 2018, our pro forma coal purchase costs in 2017 and the six months ended 30 June 2018 would not have changed as none of the entities acquired or disposed of under the Pro Forma Transactions purchased coal in 2017 or the six months ended 30 June 2018.

Other Operating Expenses

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual other operating expenses in the six months ended 30 June 2018, our pro forma other operating expenses in the six months ended 30 June 2018 would have slightly decreased by 1.8% to A$167 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual other operating expenses in 2017, our pro forma other operating expenses in 2017 would have increased by 11.5% to A$368 million, primarily due to the addition of C&A's other operating expenses and stamp duty incurred or expected to be incurred on the Warkworth and Moolarben acquisitions.

Finance Costs

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual finance costs in the six months ended 30 June 2018, our pro forma finance costs in the six months ended 30 June 2018 would have slightly increased by 0.7% to A$153 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual finance costs in 2017, our pro forma finance costs in 2017 would have increased by 4% to A$306 million, primarily due to the addition of C&A's finance costs.

Profit Before Income Tax

As a result of the aforementioned reasons, assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual profit before income tax in the six months ended 30 June 2018, our pro forma profit before income tax in the six months ended 30 June 2018 would have decreased by 17.3% to A$446 million.

As a result of the aforementioned reasons, assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual profit before income tax in 2017, our pro forma profit before income tax in 2017 would have increased by 151.3% to A$842 million.

Income Tax Expense

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual income tax expenses in the six months ended 30 June 2018, our pro forma income tax expense in the six months ended 30 June 2018 would have decreased by 15.7% to A$150 million.

Assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual income tax expenses in 2017, our pro forma income tax expense in 2017 would have increased by 178.7% to A$248 million, primarily due to the addition of C&A's income tax expenses.

Profit After Income Tax

As a result of the aforementioned reasons, assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual profit after income tax in the six months ended 30 June 2018, our pro forma profit after income tax in the six months ended 30 June 2018 would have decreased by 18.0% to A$296 million.

As a result of the aforementioned reasons, assuming that the Pro Forma Transactions had occurred on 1 January 2017, compared to our actual profit after income tax in 2017, our pro forma profit after income tax would have increased by 141.5% to A$594 million.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to Rules 13.19 of the Listing Rules.

DIRECTORS' CONFIRMATION OF NO MATERIAL ADVERSE CHANGE

The Directors confirm that, having performed reasonable due diligence on the Group, there has been no material adverse change in our financial or trading position or prospects since 30 June 2018 and up to the date of this prospectus.