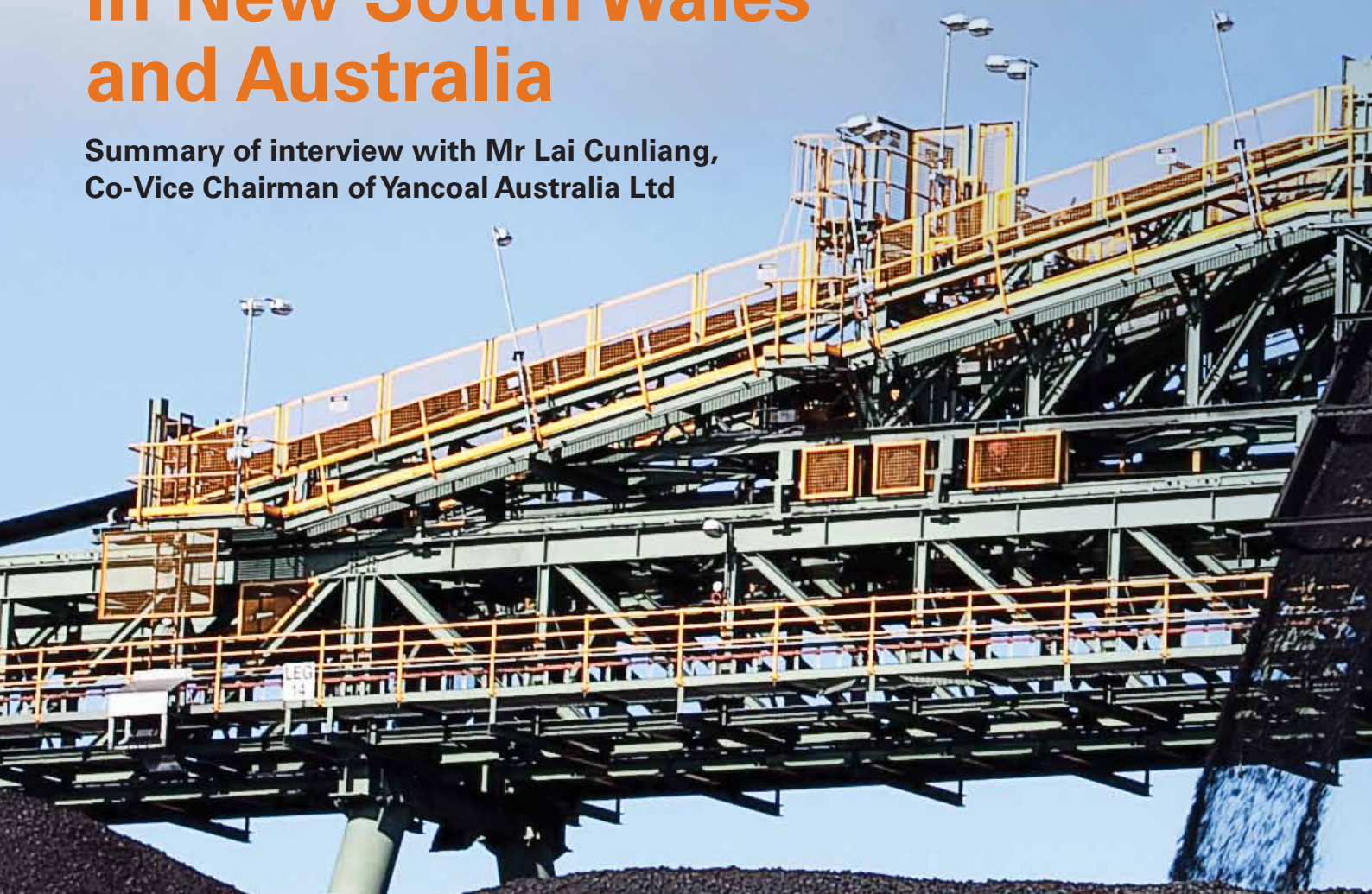


**CASE: YANCOAL AUSTRALIA LTD**

# China's first coal mine in New South Wales and Australia

**Summary of interview with Mr Lai Cunliang,  
Co-Vice Chairman of Yancoal Australia Ltd**



Yancoal's Moolarben Mine, Mudgee (NSW)

## Introduction

Yancoal Australia's listing on the Australian Stock Exchange (ASX) on 28 June 2012 was the largest in the Australian market since December 2010. It marks a "significant vote of confidence" in Australia's coal sector by creating the largest investment by a Chinese state-owned company in the Australian coal industry.

Yancoal Australia owns over ten mines and projects across the country, primarily located in New South Wales (NSW) and Queensland (QLD). Yancoal's major shareholder, Yanzhou Coal, is China's fourth largest coal miner and controls 78 percent of the Australian entity. Its owner, Yankuang Group, is one of the most successful resource and energy companies in China. It is a provincial level State Owned Enterprise (SOE) that focuses on mining, construction materials, power generation, electrolysed aluminium, petrochemicals, and machineries with an annual income surpassing 100 billion Yuan RMB.



## NSW and Australia as investment destinations

Before investing in Australia, Yancoal Australia's largest shareholder and founder, Yanzhou Coal Mining Company Limited, set up an Investment Committee to consider investment destinations in Africa, Europe, Russia, Indonesia and Australia and compare them in terms of resources, geography and culture.

Australia had the following advantages.

- 1. Strong formal institutions:** A highly developed legal system that provides legal security. All eventualities are covered by law.
- 2. Strong informal institutions:** Strong personal trust between individuals. People can be trusted to work according to rules and in line with market principles.
- 3. High government accountability:** Australian governments take a practical approach and feel accountable to their electorate as they are popularly elected.
- 4. Good physical environment:** An abundance of natural resources, good energy supply, coal close to the surface and good conditions for exploitation.
- 5. High quality of products:** Australian coal is of good quality and comes in a wide range of different types of coal.
- 6. Supportive environment:** Australia is an immigration society which welcomes foreign immigrants and does not discriminate against foreign investors.
- 7. Value for shareholders:** The above advantages will generate good return for shareholders.

Yancoal Australia Ltd works closely with all levels of government to ensure compliance with local laws and regulations. At the federal level, Yancoal Australia Ltd has established on-going cooperation with the Foreign Investment Review Board (FIRB). Yancoal Australia pursues its annual reporting obligations to FIRB in a pro-active manner by regularly informing FIRB of all major developments. Likewise, Yancoal maintains close informational exchange with the Department of Resources, Energy and Tourism.

In NSW, Yancoal Australia Ltd works closely with the NSW State and local governments. Yancoal Australia pursues a strategy of localisation and embeddedness, similar to how international direct investors operate in China.

1. Yancoal Australia employs a small team of less than 20 expat managers from China. The Chinese expat managers communicate with shareholders in China, decide about investment directions and spot local market opportunities in NSW and beyond.

2. Local staff play an important role in engagement with local governments and communities. Yancoal Australia knows that coal companies are different from manufacturing companies in that they have to work closely with local governments and communities to avoid adverse effects on the environment from pollution, noise and transportation.
3. At the mine level, all management teams are made up of local staff. Localisation was a learning process for Yancoal Australia. There are geological and technical differences for operating mines in Australia and China and local management helped to develop local solutions, such as different pay and incentive structures. Local management teams also maintain relations with the unions. Yancoal Australia has not had any strike activities.
4. Local differences require different responses. For example, NSW has a different labour supply and different infrastructure from QLD.
5. Community engagement and corporate social responsibility are manifested in support for local social activities and aid in emergency situations. Yancoal Australia works on the principle that engaging with local communities and looking after the welfare of workers is as important in NSW and Australia as it is in China, even though procedures may be different.





Yancoal's Moolarben Mine, Mudgee (NSW)

## Challenges ahead

Yancoal Australia's future development in Australia will crucially depend on infrastructure building. Individuals and individual companies have limited capacity to finance and build large-scale infrastructure. In some places there are very good coal reserves, but no railways, no roads and no access to port facilities. Investment in such locations requires capital and time. There should be a strategic plan to increase the building of infrastructure.

Chinese SOEs have expressed their interest in participating in building infrastructure in Australia. SOEs have the capacity for long-term investment in large-scale infrastructure. But there are concerns that Australian infrastructure building is not fully open to Chinese participation. Australia should welcome Chinese infrastructure investment as the two countries complement each other economically.



Yancoal's Ashton Mine, Singleton (NSW)

## Background information on Yancoal Australia

Since its incorporation in Australia on 18 November 2004, Yancoal Australia Limited has grown rapidly in terms of market presence, employees, and revenue. In 2004, Yancoal purchased its first Australian mine in the Hunter Valley, NSW. This was followed by a series of mine acquisitions and significant expansion from 2006. By early 2012, after 8 years of operation, Yancoal had a portfolio of six operating coal mines and major development projects across NSW, QLD and Western Australia (WA), and gross sales rising from 0.2 Mt in 2006 to 9.5 Mt in 2011 (equity basis).

The merger enables Yancoal Australia to be well placed with capacity at major ports in NSW and QLD and matching rail capacity.

Yancoal Australia has brought considerable benefits to the Australian economy. According to Yancoal Australia, approximately AUD 4.6 billion have been invested in its operations since 2004 (including the acquisition of Felix Resources in December 2009)<sup>3</sup>. Table 1 gives a brief overview of the company's key investment projects.

**Table 1: Overview of Yancoal Australia's key investment projects**

Date	Acquisition	Value (AUD)
Dec 2004	Acquired Southland Mine and subsequently re-named it to Austar	\$64 m <sup>a</sup>
Dec 2009	Acquired 100% of Felix Resources Ltd	\$3.3bn
May 2011	Acquired an additional 30% interest in Ashton Coal from IMC group	\$244m
Aug 2011	Acquired 100% interest in Syntech Resources	\$203m
Sep 2011	Acquired 100% of Premier Coal from Wesfarmers	\$297m

Note: <sup>a</sup>. represents initial Paid Up Capital for the establishment of Austar

On 28 June 2012, Yancoal Australia was listed on the Australian Stock Exchange following its merger with Gloucester Coal Limited. The merger created a significant and growing coal company with diversified products, which is expected to be Australia's largest listed pure-play coal producer and the world's ninth largest pure-play coal company<sup>1</sup>. After the merger, the newly listed Yancoal Australia Ltd, with total assets valued at more than AUD 8 billion, has a portfolio of seven operating mines, six projects under feasibility study and a suite of exploration assets and expects to produce approximately 25Mtpa – 33Mtpa of saleable production by calendar year 2016<sup>2</sup>.

Yancoal Australia now employs over 3000 people. In addition, along with the capital investment, Yancoal also contributed to technology spillovers into Australian coal mining by introducing Longwall Top Coal Caving (LTCC) technology. Yancoal Australia's parent company, Yanzhou Coal, owns the patent rights to this system and has contributed the operational experience to make this technology feasible in Australia.

1 <http://www.gloucestercoal.com.au/>

2 Gloucester Basin operations consisting of Stratford and Duralie have been counted as one mine. Donaldson, consisting of Abel underground, Tasman underground and Donaldson opencut have been counted as one mine. Source: Yancoal, *Reaching New Horizons Together* brochure.

3 Page 72. Gloucester Coal Ltd Explanatory Booklet.



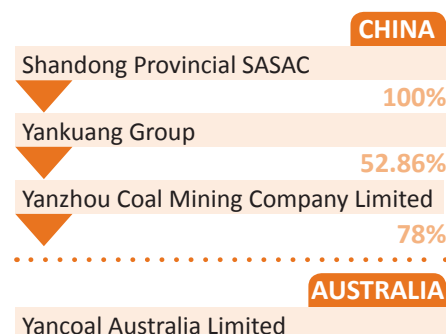


Yancoal's Duralie Mine, Gloucester (NSW)

Yancoal Australia is 78 percent owned by Yanzhou Coal Mining Company Limited of the People's Republic of China. Yanzhou Coal Mining is listed on the Hong Kong Stock Exchange, New York Stock Exchange Inc. and the Shanghai Stock Exchange, respectively and is majority owned (52.86 percent) by the provincial SOE, Yankuang Group, based in Shandong Province (as shown in the illustration to the right).

In 2004, Yanzhou Coal acquired the company's first coal mine in Australia, NSW's Southland mine and subsequently renamed it Austar.

Yancoal Australia's founder, Yanzhou Coal Mining Ltd, became the first Chinese company whose shares were listed at home and abroad in four share markets.



**Table 2: Growth of Yancoal Australia**

2004	Yanzhou Coal acquired Southland mine in NSW and subsequently renamed it to Austar
2006	Austar production commences under Yancoal Australia ownership, using Longwall Top Coal Caving (LTCC) technology
2009	Yancoal completed AUD 3.3 billion acquisition of 100% interest of Felix Resources (assets include interests in Moolarben, Yarrabee, Ashton, Minerva, Harrybrandt, Athena, Wilpeena and Ultra Coal technology)
2010	Construction of Moolarben 14.0Mtpa coal handling and preparation plant (CHPP) completed Production commences at Moolarben open-cut mine
2011	Yancoal sold its 51% interest in Minerva after one of the joint venture partners exercises its pre-emptive right Yancoal acquired a further 30% interest in Ashton for AUD 244 million Yancoal acquired Syntech Resources, including the Cameby Downs open-cut mine for AUD 203 million
2012	Yancoal completed the acquisition of Premier Coal (including Premier Char) from Wesfarmers for AUD 297 million Yancoal completed an AUD 8 billion merger with Gloucester Coal and is listed as Yancoal Australia Limited on the ASX

Source: information is compiled based on Yancoal Australia's Management Presentation 26 April 2012.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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July 2012. NSWN09784MKT.