

ANNUAL REPORT 2018



SAKARI RESOURCES LIMITED

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CORPORATE DIRECTORY

Directors

Mr Surong Bulakul	Chairman
Ms Rosaya Teinwan	Chief Executive Officer
Mr Wirat Uanarumit	Non-Executive Director
Mr Thanakorn Poolthavee	Non-Executive Director
Mr Han Eng Juan	Non-Executive Director
Ms Julie Therese Hall	Non-Executive Director

Audit, Risk & Compliance Committee

Mr Han Eng Juan	Chairman
Mr Thanakorn Poolthavee	Member

Remuneration Committee and Nomination Committee

Mr Wirat Uanarumit	Chairman
Ms Julie Therese Hall	Member

Company Secretaries

Seow Han Chiang Winston
Lee Sock Wei

Registered & Head Office

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Share Register

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Singapore 048623

Independent Auditors

PricewaterhouseCoopers LLP
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Singapore 018936

Audit Partner: Debra Ann Ker

FIVE-YEAR SUMMARY

Y/E 31 Dec (\$ million)	2014	2015	2016	2017	2018
Coal sales volume (Mt)	9.8	7.3	9.8	8.3	8.2
Coal revenue	632.7	401.5	459.1	578.3	634.3
Other revenue	2.2	4.1	6.5	2.3	2.4
COGS	(568.5)	(363.1)	(401.9)	(447.0)	(458.3)
Gross profit	66.4	42.5	63.7	133.5	178.4
Other operating income or (expense)	4.6	(153.6)	(14.5)	(18.6)	(5.6)
Administrative, Corp & Technical	(21.7)	(14.3)	(5.2)	(11.4)	(12.7)
Operating profit	49.3	(125.4)	44.0	103.5	160.0
Financial expenses	(8.2)	(4.1)	(5.6)	(3.9)	(1.2)
Profit Before Tax	41.1	(129.5)	38.4	99.6	158.8
Tax	(34.2)	(49.3)	(23.1)	(10.5)	(68.7)
Net profit	7.0	(178.8)	15.3	89.1	90.1
Dividend	(1.7)	-	-	-	9.0
Dividend Payout %	25%	0%	0%	0%	10%
EBITDA	145.7	77.2	110.5	185.7	227.7
Balance Sheet					
Total current assets	215.7	130.1	158.1	202.6	232.3
Total long-term assets	819.8	683.5	647.3	601.9	596.6
Total current liabilities	261.6	197.2	263.4	182.2	114.7
Total long-term liabilities	143.5	166.4	73.3	63.3	68.4
Total equity	630.4	450.0	468.7	559.2	645.8
Net cash or (Debt)	(154.6)	(161.7)	(115.6)	9.2	107.4

CHAIRMAN'S STATEMENT

Dear Shareholders

After the thermal coal industry restored its balance between demand and supply in 2017, coal demand was relatively stable and global coal prices swung to favourable levels throughout 2018. One of the key global events in 2018 was the escalating trade tensions between the United States of America and China. The ongoing trade disputes disrupt various supply chains running from commodity producers to consumers of finished products. The adverse effect was not confined only in the two countries, but it also spilled over to other countries reliant on these supply chains. We are mindful of the changing business environment and we keep a careful watch on threats that might affect our business.

Sakari in 2018

In 2018, although the Group faced a number of challenges in its business environment, Sakari continued to deliver satisfactory results. Jembayan Mine managed to achieve its target production plan despite elevated strip ratio and an increase in fuel price. Sebuku Mine successfully restarted on a smaller operation scale with a new mining contractor. Sakari's marketing team has successfully secured long term coal supply contracts with power utilities in both domestic and overseas markets. Sakari's tax team has been proactive in dealing with prior-years tax issues in Indonesia and the overall outcomes were satisfactory. With commitment to excellence, Sakari management strived for continuous improvement in all aspects including developing appropriate tools to manage coal price risk and credit control and developing a dynamic tool to analyze optimal coal specifications from coal blending. We believe these continuous improvement efforts will provide a strong foundation for Sakari to sustain its operations throughout the volatile commodity cycle.

In tandem with the higher global coal prices, Sakari concluded 2018 with robust financial results. Sakari's revenue and EBITDA increased from 2017 by 10% and 23% respectively. EBITDA margin improved from 32% in 2017 to 36% in 2018. The Group's balance sheet continues to be strong. Total shareholders' equity increased by 15.5% to \$645.8 million at the end of 2018.

Outlook and Conclusion

Sakari started 2019 with a strong financial position following on 2018. There will be many good opportunities open for Sakari this year. We plan to increase coal blending and coal trading activities to optimize Sakari's coal specification and to be able to provide a diverse range of products. We also look for inorganic growth opportunities including potential acquisition of new coal mines. We will have to assess them carefully to ensure that, if we do take advantage of any opportunities, they will add to shareholder value. Nonetheless, while we aim for positive outcomes from our business strategies, the rapid change of events towards the end of 2018 in all sectors of the international financial and commodity markets means that Sakari remains cautious in implementing its 2019 strategies.

Once again, I would like to offer my appreciation to the many public officers and communities that we deal with in Indonesia and elsewhere for their diligent approach to overcoming the issues that arise in the course of Sakari's daily business, to my fellow directors for their support and to the management team and staff of Sakari for the commitment and loyalty that they have shown over the past year.

Mr Surong Bulakul
Chairman

BOARD OF DIRECTORS

Surong Bulakul

Chairman

Mr Surong was appointed to the Board of Sakari in February 2013, became Acting CEO in September 2013 and Chairman in June 2014. He holds a BSc in Industrial Engineering and Operations Research, a Master of Engineering in Operations Research and an MBA from Cornell University, USA. He joined PTT Group in 1973 where he had held senior management positions including Chief Operating Officer Infrastructure, PTT Public Company Limited. In addition to being Chairman of Sakari, he is also the Chairman of the Expressway Authority of Thailand, and a Director of the Provincial Electricity Authority of Thailand.

Rosaya Teinwan

Acting Chief Executive Officer

Ms Rosaya Teinwan, who was appointed to the Board and the position of Acting CEO on 1 December 2015, has been employed by PTT Group since 1991. She holds a BSc in Electrical Engineering, a Master of Business Administration and specializes in organizational development and planning. Ms Rosaya has been involved in the upstream and downstream business of PTT Group for many years, her last appointment being Executive Vice President of PTT and the acting President of PTT Green Energy Pte Ltd and PTT Energy Resources Company Limited.

Han Eng Juan

Non-Executive Director

Mr Han who holds a Bachelor of Accountancy (Hon)(NUS) is a qualified accountant. He was a Director of the Singapore Deposit Insurance Corporation Limited for eleven years until 2017 and is a member of the finance commission of the Singapore Red Cross Society having previously served as its Treasurer Council Member and Chairman of the Audit Committee. Mr Han has been awarded the Public Administration Medal (Silver) for service in the public sector and the Public Service Medal for community work. In the public sector, Mr Han has held senior positions in the Board of Commissioners of Currency Singapore and the Monetary Authority of Singapore. His last position in the private sector was as Senior Managing Director and Singapore and Regional Country Head of Dexia Banque Internationale à Luxembourg.

Julie Therese Hall

Non-Executive Director

Ms Hall is a qualified geologist and also holds several diplomas in corporate directorship and financial planning. She is a Senior Fellow of the Corporate Directors Association, a member of the Australian Institute of Directors and a Senior Fellow of the Financial Securities Institute. Ms Hall has almost 30 years' experience in mining projects in Australia and Asia, including 13 years at BHP Ltd. She is an Executive Director of Far East Energy Corporate Pty Limited and its subsidiaries, and a Director of Pegnel Resources Pty Limited, a private resources consultancy company.

BOARD OF DIRECTORS (cont'd)

Wirat Unarumit

Non-Executive Director

Mr Wirat holds a Bachelor Degree in Electrical Engineering from Chulalongkorn University and an MBA from Pennsylvania State University, USA. During his career, he has moved over from the position of Chief Financial Officer (CFO) to Chief Operating Officer - Upstream Petroleum and Gas Business Group (COOU) at PTT Public Company Limited. He had had over 10 years of experience as CFO within PTT Group, including Thai Oil Public Company Limited and IRPC Public Company Limited during 2005-2012. He started his career in 1988 with Shell Company of Thailand. With his engineering training and business background, he worked in various capacities, including his last position as Refinery Project Business Manager of Rayong Refinery. Prior to joining Shell Company, Mr Wirat held several executive positions in the finance sector over a span of 15 years at Nomura Securities and ABN AMRO Bank N.V. Mr Wirat was appointed as a director of Sakari in October 2016.

Thanakorn Poolthavee

Non-Executive Director

Mr Thanakorn holds a B. Eng. in Mining from Chulalongkorn University, Thailand. He has extensive experience in the energy industry in a career that has included his holding the position of Deputy Governor, Fuel for The Electricity Generating Authority of Thailand (EGAT). He was formerly a Director of EGAT International Co. Ltd and Ratchaburi Electricity Generating Holding PLC. Mr Thanakorn was appointed to Sakari's Board in May 2014.

CHIEF EXECUTIVE OFFICER'S REVIEW

Dear Shareholders

Coal market in 2018 was relatively strong compared to 2017. The average of 2018 Newcastle coal price was \$107.34/t, up from \$88.46/t in 2017. The strong global coal prices in 2018 had led the Indonesian government to impose a new regulation to cap the coal price at \$70/t for domestic purchases by the state-owned utility Perusahaan Listrik Negara (PLN) in an effort to keep Indonesia's electricity tariffs stable and to shield PLN from price fluctuations. The rule has applied since January 2018 and will be reviewed in December 2019. With an obligation to supply a minimum 25% of coal produced to the domestic market, such new regulations has inevitably affected the financial performance of Sakari.

Sakari management is committed to striving hard and to carrying out prompt actions in dealing with both external and internal challenges to ensure that Sakari remains competitive. Overall, Sakari has responded well to the changing environment in 2018.

Operations

In 2018, Jembayan Mine produced 7.7 Mt of coal (2017: 7.9 Mt) which represented over 95% of the Group's total production. Sebuku Mine operated for the full year in 2018 after the restart of its operations since November 2017. Sebuku Mine produced 333 kt of coal in 2018 (2017: 35 kt). Given that the amount of coal reserve at Sebuku Mine is declining, an extensive review of its economic viability and future production plan of the mine is being carried out.

The Group's average cash cost marginally increased by 4% on year-on-year basis. Sakari continued to impose tight control over

production and overhead costs to ensure that Sakari's production costs remain competitive against its peers in the industry.

Throughout 2018, Sakari continued keeping to its stringent safety guidelines and committed to achieving the highest standards of occupational health and safety. In 2018, Sebuku site achieved zero loss time injury frequency rate (LTIFR) while Jembayan site had 0.06 LTIFR, which was below the threshold at 0.19. We continue to aim for zero loss time from injuries at both mines in 2019.

Marketing

In tandem with the increase in global coal prices, Sakari achieved a year of strong performance in 2018 with the weighted average-selling price (ASP) of \$76.21/t in 2018, 9.5% up from 2017, despite the coal price cap imposed by the Indonesian government. Total coal sales volume in 2018 decreased marginally to 8.2 Mt (2017: 8.3 Mt), mainly supplied from Jembayan coal.

In 2018, Tiger Energy Trading, the marketing arm of Sakari Group, successfully managed to secure long-term coal supply contracts with both domestic and overseas customers. This was because of our performance and commitment in bringing value to customers through consistent, timely and reliable deliveries.

Financial Performance

The consolidated financial statement for 2018 indicates a very satisfactory performance of the Group. In 2018, Sakari's revenue hit \$636.7 million (2017: \$580.6 million) and EBITDA was \$227.7 million (2017: \$185.7 million) The improved financial performance was mainly

CHIEF EXECUTIVE OFFICER'S REVIEW (cont'd)

driven by higher average selling prices from favorable global coal prices. The Group's net profit after tax in 2018 was finalised at \$90.1 million. (2017: \$89.1 million), including a provision of \$28.3 million for prior year tax disputes with the Indonesia tax authorities.

With emphasis on cash and capital management, Sakari successfully repaid all outstanding external borrowings in 2018. The interest expenses were substantially reduced to \$0.9 million in 2018 (2017: \$3.5 million). Sakari Group continued to reflect a strong net cash position for the second year.

Sustainability

Sakari's Sustainability Report for 2018 is included in this Annual Report.

Outlook

Moving forward, we will continue to face challenges in 2019. Changes in regulations and policies towards coal imposed by key market

players such as China and Indonesia could fuel more uncertainties to the coal industry in addition to the traditional factors of global demand and supply.

As for Sakari's production outlook, Jembayan will be the key mine to underpin production of the Group going forward while Sebuk coal reserve is diminishing. Replenishment of coal reserve remains a key focus of Sakari. Our business development team will continue being active in exploring potential coal mines in Indonesia as well as identifying opportunities for coal blending and coal trading activities to increase revenues and optimize our product specification.

In closing, I would like to thank the entire staff and management team for the hard work they put into 2018 and encourage them to strive for further improvements in 2019.

Rosaya Teinwan
Chief Executive Officer

FINANCE REVIEW

Revenue and Profit

(\$ million)	2018	2017	YoY Change
Revenue	636.7	580.6	10%
EBITDA	227.7	185.7	23%
Net Profit/(Loss) After Tax	90.1	89.1	1%
EBITDA Margin (%)	36%	32%	12%

Coal production and sales volume remained stable but the Group's revenue increased by 10% to \$636.7 million. This increase in revenue was mainly attributed to higher global coal prices. In tandem with the increase in global coal prices, gross profits margin improved from 21.8% to 28.1%. Despite the higher gross profits, net profit margin decrease marginally from 15.3% to 14.1%. This is attributed to higher provision for prior year tax disputes with the Indonesia tax authorities. EBITDA improved by 23% to

\$227.7 million. The Group's balance sheet remained strong with total equity increasing to \$645.8 million whilst continuing to build the net cash position to \$107.4 million.

During the year the Group has repaid fully the balance of \$40.0 million of short term loan. The timely repayment of loans contributed significantly to reduction in interest cost for 2018 and future, especially with the continued increase in interest rates.

FINANCE REVIEW (cont'd)

Balance Sheet

(\$ million)	2018	2017
Total current assets	232.3	202.6
Total long-term assets	596.6	601.9
Total current liabilities	114.7	182.2
Total long-term liabilities	68.4	63.3
Total equity	645.8	559.2

Overall, the Group's balance sheet continues to be strong. Total equity increased by 15.5% to \$645.8 million. This is mainly attributed to continued reduction in short and long term borrowings which resulted in the reduction in total liabilities by 25.4% to \$183.1 million whilst total assets grew by 3% to \$828.3 million.

Mike Koay

Chief Financial Officer

OPERATION REVIEW

Production and Sales Volumes

Kt	Year Ended 31 December	
	2018	2017
Sebuku		
Coal mined	336	31
Product coal	333	35
Own coal sales	257	119
Jembayan		
Coal mined	7,722	7,852
Product coal	7,722	7,873
Own coal sales	7,627	7,739
Total		
Coal mined	8,058	7,883
Product coal	8,055	7,908
Own coal sales	7,884	7,858

Overview

The Group's operations continued to focus on continuous improvement and new initiative programmes to ensure that both mines can optimize results in terms of profitability and cash flow whilst preserving coal reserves. The operational strategy remains focusing on operational excellence in terms of production reliability, efficiency and cost. We will continue to work internally and with our partners to improve our mine plan and mining methods so that we can optimize the utilization of our mines' infrastructure and assets.

Jembayan

Production volume at Jembayan decreased slightly from 7.9 Mt in 2017 to 7.7 Mt in 2018, corresponding to the new price-cap and DMO regulation announcement. Many continuous improvement programmes were introduced

during the year. As a result, the total cost saving from these programmes were about \$4.5 million.

Sebuku

Sebuku coal production increased from 35 kt in 2017 to 333 kt in 2018. Many new cost cutting initiatives were implemented resulting in the total cost saving of about \$0.5 million.

Quality Security Safety Health Environment (QSSHE)

Quality, Security, Safety, Health and Environment (QSSHE) compliance was closely monitored and carried out across the Group. For more information and other sustainable business initiatives, please see our Sustainability Report later in this Annual Report.

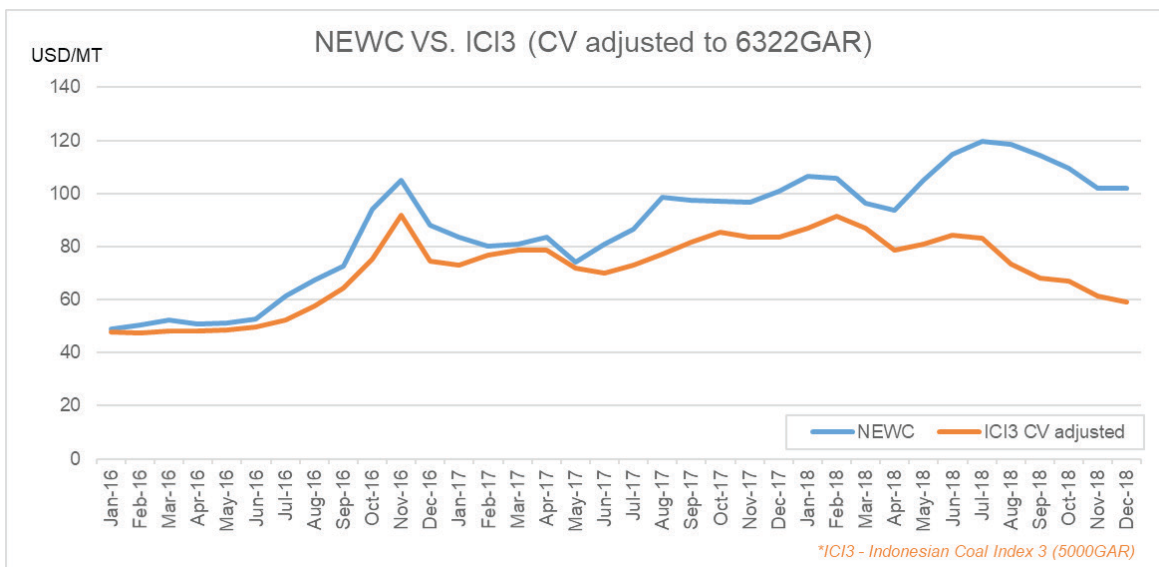
Surachai Sukhahuta
Chief Operating Officer

MARKETING & SALES REVIEW

2018 was another successful year of Tiger Energy Trading. Amidst challenges in coal market condition and coal price disparity between Newcastle high CV grade and Indonesian mid-low CV grades, Tiger Energy achieved the Average Selling Price (ASP) of \$76.21/t (9.5%

up from 2017). Focus of Tiger Energy remained generating the sustainable and long term value to Sakari Group through market expansion in Southeast Asia, securing long term contracts and relationship management with our key customers.

2018 Coal Markets



The thermal coal market in 2018 was volatile and consisted of lots of uncertainties. The market was intervened by the government policies from various countries, not only to control the economy and market, but also to limit environmental issues.

In 2018, we see global coal demand marginally increased from 2017. For the demand side, China, India, and South East Asia demand collectively increased for approximately 60 Mt. Demand from North Asia slightly decreased given there were a few expired coal-fired power plants. In Europe, thermal coal demand continuously decreased as

many countries switch to renewable energy and reduce number of coal consumption. The trend in Europe is likely to continue in downturn in 2019 and onwards.

On the supply side, Indonesia increased its exported volume approximately 35 Mt in line with government's support to increase exporting volumes for additional revenue. Australian production remained flat despite of several production issues. Apart from Australian and Indonesian supplies, the incremental exports of approximately 30 Mt came from USA and Russia as the countries increased their production and

MARKETING & SALES REVIEW (cont'd)

improved logistic system. On Atlantic supply side, South Africa and Columbia exports were slightly down from 2017 due to bad weather that disrupted the production throughout the year.

One of the significant change in 2018 observed was the coal price divergence between high CV coal grade (Newcastle coal index 6000NAR) and other lower CV grades.

In the beginning of 2018, freezing temperature rose heating demand in China. A gas supply was also shortage. China increased the coal consumption from both domestic and imported coal. During that period, Indonesian coal price and Newcastle high ash price were risen. In April, Chinese government was concerned on high imports level of coal, therefore; import restriction in China had implemented. Lower CV coal prices became temporarily high due to stocking ahead of the restriction. At the same time Newcastle high CV production faced issues, including bad weather and infrastructure. This factor drove Newcastle index amid the annual negotiation between Glencore and Tohoku Electric for the JPU contracts. The negotiation had prolonged until broke up in June. Newcastle price reached the highest point in six years with \$119.8/t.

However for the remaining of the year, the price volatility seen in Newcastle index had less and less correlation to prices of other coal grades. As opposed to abundant low CV coal supplies, supplies of high CV coal grade from Australia were fairly limited. In China, import restriction and currency depreciation made buyers become more cautious in importing coal purchase. The Indian's Rupee depreciation had slowed down imports of mainly low CV coal grades into India. On the contrary, Indonesian government aimed to solve the Rupiah depreciation by encouraging

more exports up to 100 Mt. This had led to oversupply situation of low CV coal grades in 2018.

While Newcastle index continuously increased, prices of other coal grades were moving in the opposite direction. In August 2018, the spread between Newcastle index 6000NAR and Newcastle high-ash 5500NAR broke the record at \$52/t. Overall, comparing to 2017, Newcastle coal price in 2018 was higher; while Newcastle high-ash (5500NAR) and Indonesian low CV prices were weaker.

Tiger Energy's Performance

During the transitional year of coal price divergence, Tiger Energy continues to achieve high ASP in 2018 at \$76.21/t (trading and derivative transactions inclusive). The outcome was a contribution of proper management of customer portfolio, balancing of index-linked and fixed price transactions as well as leveraging of producer position on long term basis.

Despite the implementation of coal price cap (at HBA \$70/t) for sales to power sector in Indonesia, our ASP represented 9.5% increase year-on-year. Newcastle price average increased 21.5% year-on-year; while ICI3 average decreased 1.3% year-on-year.

We also achieved the milestone in expanding our market coverage into emerging market for medium to long term. Tiger Energy successfully secures additional term supply contracts with reputable power utilities in Vietnam and the Philippines with delivery from 2019 onwards. This has set the strong platform for future growth to Sakari Group.

MARKETING & SALES REVIEW (cont'd)

The business expansion of the chartering activities generated approximately \$0.27 million revenue. A modest revenue was also derived from the coal blending and optimization programme in 2018. Going forward Tiger Energy will continue to explore business opportunities with third party coal to increase additional sales volume and revenue to the company.

Rosaya Teinwan

President

Tiger Energy Trading Pte Ltd

SUSTAINABILITY

Overview

Sakari aspires to conduct business in line with the principles of sustainable development through providing leadership, building trust and creating a sustainable future for the society and the environment in which it operates through innovation, excellence and transparency both in holding office in Singapore and the operations in Indonesia.

We encourage stakeholders to actively share information with us to provide feedback on any issue affecting our relationships.

This Sustainability Report covers the period 1 January 2018 to 31 December 2018.

Community

Led by CEO, Rosaya Teinwan, staff in Sakari together with the students, teachers and principal from Mountbatten Vocational School (MVS) went on a Learn and Play Outing in Singapore in November. Sakari's employees worked hand in hand with the students in planting of plants and caring of the various plants which some of the students grow in their garden in the school for culinary purposes. Students also learned about biodegradable waste which could be used as organic fertilisers for plants and the recycling of useful daily discarded items.

The outing promoted teamwork, patience, understanding of the various learning pace and character building of both the employees and students. The Principal, Ernest Toh, thanked Sakari for sponsoring their first outing in 2018. Meanwhile, we in Sakari, believe in our commitments to improve every aspect of society including promoting equal opportunity through education and encouraging awareness of saving the environment.

Over in Indonesia, Sakari is integrally involved with, and sees itself as part of, the local communities in the area of our mines who are key stakeholders in Sakari's operations. An objective of our work with communities is to offer development opportunities, education and training so that they may be more self-sufficient after mining in their area (with its consequential benefits) has finished. We recognize the rights of community members and treat them with respect and equality.

Each of our mines has a Community Development Department, whose purpose is to ensure that we implement our Community Social Responsibility (CSR) programmes to achieve the goal of enriching the lives of local community members who are affected by, or interact with, our operations.

To ensure engagement with communities is effective, social mapping programmes have been undertaken at both Jembayan and Sebuku in prior years: the data obtained has greatly assisted us to identify areas where our sustainability efforts may best be applied. Regular meetings are held with community members, village leaders and local politicians to discuss current and potential programmes. During 2018 Sakari staff also participated in local government strategic planning sessions to ensure our efforts are synchronized with those of local government bodies.

Below is a summary of the major initiatives that Sakari supported during 2018:

- 1. Infant mortality and maternal health:** We build on prior years' work to reduce infant mortality and improve maternal health. Sakari regularly donated food supplements to infants and pregnant mothers in our local

SUSTAINABILITY (cont'd)

communities. In Sebuku, the appointed midwife works hand in hand with the Puskesmas and doctors in monitoring of the health and wellness of pregnant mothers.

2. Farming and Livestock Farming:

We continued to devote resources to the Integrated Farming System (IFS) programmes that we have promoted and we have increased the self-sufficiency of many local community members. To the many locals, the product from the farms provided them with a modest monthly income. Hence in 2018 there was an additional new activity of about 10 hectares inside of IFS area in Jembayan for corn plantation and about 6 hectares IFS in form of “Demplot” as a media of learning for community and local employees in Sebuku.

Jembayan continuously cooperated with the Department of Agriculture and Animal Husbandry at both provincial and district level in developing agriculture and livestock programmes. As at end of 2018 a total of 123 hectares as forage area have been provided.

In addition, Jembayan continued to support the Paddy Field Programme since it began in 2015. Additional Paddy Field areas were added in 2018 at two locations, 44 hectares in Griya Agung and 20 hectares in Loa Raya. The community’s interest in the Paddy Programme remains strong.

Similarly, Sebuku continued to support the Paddy Field Programme since it began in 2013. Food securities programme for paddy field and rice field at the end of 2018 was totally 120 hectares, including 20 hectares in Kanibungan Village, 65 hectares in Sekapung Village, and 35 hectares in Mandin Village.

Also, Sebuku implemented the programme to increase the income generated from paddy, pepper and rubber at Serakaman Village and Sekapung Village. There was also study of honey bee farming at Kanibungan Village in Demplot for economic independence support.

3. Education: Jembayan’s efforts concentrated on improving schools facilities and explored the need of additional classrooms to cater to larger enrolment of students. In 2018, Jembayan built 10 units of toilets for elementary schools and junior high schools. Sebuku also provided supports such as electricity supply, learning materials and classroom facilities to schools in 5 villages namely Kanibungan, Sekapung, Mandin, Serakaman and Belambus.

4. Health awareness: Regional doctors help to promote the importance of health and hygiene care to the villagers. Sakari contributed to maintenance and improvement of existing infrastructures in villages around our mine sites. As blood is needed to save lives in times of emergencies and to sustain the lives of those with medical conditions, Jembayan collaborated with the Indonesian Red Cross Society to carry out quarterly blood donation drive around mine site since 2016. Sebuku through a routine free extension, check-up and treatment program in 5 villages (Kanibunga, Serakaman, Mandin, Belambus and Sekapung) in cooperation with medical staff and physicians.

SUSTAINABILITY (cont'd)

5. Disaster relief assistance: Major earthquakes occurred at Lombok Island in Indonesia on 5 August 2018 at 7.0 Richter Scale (RS) and on 9 August 2018 at 6.2 RS. Over 430 victims lost their lives. Around 67,875 houses and many public facilities (school, hospitals, offices, road, water resources and electricity) were destroyed by the earthquake.

On 12 August 2018, teams at Jembayan stepped in to provide relief for the victims and the many inhabitants affected by these two earthquakes. Essential daily necessities including drinking water were supplied to those in Salut Village, Khayangan District, North Lombok. On 13 August 2018, our team also participated in earthquake trauma healing for children. Seventy bags consisting of books, stationeries, snacks and white boards were distributed to the affected children. We also provided 4 units of gensets, 600 litres of fuel, 17 tarpaulin, medicines, drinking water, 8 light bulbs and cable to Dusun Panggung Timur and Selengan Villages.

6. Social activities and community bonding: We continue to participate in social activities and promote community bonding by sponsoring local community cultural, religious, sporting and educational activities. In 2018, Sebuku had been cooperating with Sekapung village and Indonesian Navy Army for assisting in building ceiling, repairing scratch at the Jetty, and supplying air conditioning and pipes for antenna radio.

7. Youth and sport: Jembayan continued to donate sport equipment such as balls, nets and other means to sport groups

in the neighbouring villages. Jembayan also sponsored events organised by the provincial and district government, such as annual football tournament organised by the Governor of East Kalimantan. Similarly Sebuku sponsored various youth activities, provincial sport competitions and cultural events such as fishing boats (traditional local competitions).

8. Economic Independence: Sebuku collaborated with the local government and Balai Latihan Kerja Kotabaru (Kotabaru Training Center) in providing support to enhance building capacity to facilitate job trainings and internship for youths in its neighbourhood area. The training center provides training for various skills such as welding, machines handling and repairs, driving and sewing. We also prepared a learning media for youths and encouraged innovation in relation to infrastructure development to community business such as Jetty for local business and fishermen, road maintenance and irrigation for farmer paddy field and electricity for public purposes.

Consumer

We have considered our coal products carefully and concluded that nothing we sell is inherently dangerous to customers in the form in which it is sold. It is organically and chemically stable and can be handled, stored and stockpiled safely with low risk to the environment and people, given that normal industry safety standards are followed.

Sakari discloses specifications for its products in a clear and transparent manner. Independent analysis of the products prior to sale ensures that customers are certain about quality and that a fair

SUSTAINABILITY (cont'd)

price is achieved for each sale. Any discrepancies between quoted and actual specifications are openly resolved with customers.

Many of Sakari's customers request multi-year contracts so that they can enjoy stable supplies and a long-term relationship with Sakari. These long-term relationships evidence the value we place on consumer service, support and responsibility when making sales.

Environment

Minimizing the effect our operations have on the environment is another of the Sakari's sustainability focuses. Our goal is to reduce the impact of our footprint on the local flora and fauna so as to preserve the ecosystem and protect biodiversity in areas under our care. Ensuring that our environmental impact is minimal will contribute to the long-term livelihoods of local communities who rely on a well-balanced environment for their day to day living. We ensure that we are achieving our goals through diligent monitoring of air and water quality and look to the future targets through ongoing environmental impact assessments.

Both mines are regularly visited by staff from the Department of Mines and Energy and other state and local government agencies that undertake environmental audits and reviews. The results of the 2018 audits and reviews were positive, with only minor items raised, most of which have been rectified at the date of this report.

In 2018, revegetation achieved 93.3% of target (total 135 hectares) and increased the total rehabilitated area over Jembayan's life of mine to 1,417 hectares by December 2018.

During the year, Sebuku continued on rehabilitation of MBRS output mud cell and KM to accelerate planting and less topsoil. Sebuku used planting without spreading topsoil. Total area of 27.71 hectares has been re-vegetated. This brings total rehabilitated area over Sebuku's life of mine to 772.25 hectares as of December 2018.

Awards and Certifications

In 2018, Jembayan remained certified under OHSAS 18001 and received Green Award for Environmental Performance period 2017-2018 by East Kalimantan Governor. Sebuku also remained certified under OHSAS 18001 and received Blue Award for Environmental Performance period 2017-2018 by Environmental & Forestry Department.

Both mines remained certified under ISO 14001:2015 Environmental Management Systems throughout the year. Recertification of ISO 14001 for Jembayan was completed in March 2018 and it remains effective until March 2021. There was no major finding in the recertification audit. Recertification audit of ISO 14001 for Sebuku conducted in early 2017 and will be effective until January 2020.

Fair Operating Practices

Fair Operating Practices (FOP) relates to Sakari applying ethical practices in dealings with all other entities. FOP consists of five key areas; anti-corruption, responsible political involvement, fair competition, promoting social responsibility and respect for property rights. FOP is a core area that Sakari monitors at the corporate level and reports upon annually.

SUSTAINABILITY (cont'd)

Sakari has a long history of conducting its operations in accordance with principles of FOP and during 2018 we operated all business units with the ethics and transparency expected by our Corporate Code of Conduct. Each year, all staff are required to confirm they have read the code and agree to comply with its terms.

A centralised contracts register has been established to assist in confirming that Sakari has complied with FOP in the negotiation of key contracts.

Human Rights

Sakari has a solid reputation for upholding international human rights' principles. Supporting Sakari's adherence to these principles are our Corporate Code of Conduct, our Whistle Blower Policy, policies for equal opportunity of employment, training procedures, our Occupational Health and Safety Policy, anti-discrimination procedures, local community procedures, purchasing procedures, marketing procedures and our Legal and Anti-Corruption Policy.

A statement on human rights has been adopted by senior management and staff has been made aware of this statement. Ongoing business operations with communities, suppliers and customers have not revealed any indication of possible breaches of the commitment to human rights. Should Sakari become aware that a breach may have occurred, Sakari would immediately review the matter and determine appropriate remedial action.

Safety

Safety of all personnel is of paramount importance to Sakari. Management is fully committed to creating a workplace that places safety as the primary objective, striving to achieve zero injuries. Occupational health and safety is an integral part of employee culture at all levels of the Group. A comprehensive framework of health and safety policies and procedures has been implemented to protect our staff and ensure Sakari complies with all relevant laws and regulations. Sakari encourages our key stakeholders to exercise the highest levels of safety standards relevant to their area of operations. Personal safety equipment is readily available for all persons.

The primary indicator of safety is the Lost Time Injury Frequency Rate (LTIFR). In 2018, Sebuku site achieved zero LTIFR. Jembayan site had 0.06 LTIFR, which was less than the threshold at 0.19. The safety programmes were our focus and will be conducted and improved in 2019.

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DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

The directors present their statement to the members together with the audited financial statements of Sakari Resources Limited and its subsidiaries (“the Group”) for the financial year ended 31 December 2018 and the balance sheet of Sakari Resources Limited (“the Company”) as at 31 December 2018.

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 28 to 113 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

Mr Surong Bulakul	Non-executive Chairman
Mr Han Eng Juan	Independent Director
Ms Julie Therese Hall	Independent Director
Mr Thanakorn Poolthavee	Independent Director
Ms Rosaya Teinwan	Chief Executive Officer/Executive Director
Mr Wirat Uanarumit	Non-executive Director

Arrangements to enable directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

Directors' interests in shares or debentures

- (a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which director is deemed to have an interest	
	At 31.12.2018	At 1.1.2018 or date of appointment, if later	At 31.12.2018	At 1.1.2018 or date of appointment, if later
PTT Public Company Limited				
Ultimate holding corporation (No. of ordinary shares) ^(b)				
Mr Surong Bulakul	1,181,830	118,183	-	-
Ms Rosaya Teinwan	190,960	19,096	-	-
Mr Wirat Unaraumit	155,000	15,500	-	-
 (No. of unsecured bonds)				
Ms Rosaya Teinwan	100	100	-	-
 PTT Exploration and Production Public Company Limited				
Related corporation (No. of ordinary shares)				
Mr Surong Bulakul	14,349	14,349	-	-
 PTT Global Chemical Plc				
Related corporation (No. of ordinary shares)				
Mr Surong Bulakul	27,584	27,584	-	-
 IRPC Public Company Limited				
Related corporation (No. of ordinary shares)				
Mr Surong Bulakul	35,000	35,000	-	-
Ms Rosaya Teinwan	40,000	40,000	-	-

DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

Directors' interests in shares or debentures (continued)

Thai Oil Public Company Limited

Related corporation

(No. of ordinary shares)

Mr Surong Bulakul	64,700	64,700	-	-
Ms Rosaya Teinwan	6,800	6,800	-	-

Dhipaya Insurance Public Company Limited

Related corporation

(No. of ordinary shares)

Mr Surong Bulakul	7,500	7,500	-	-
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Global Power Synergy Public Company Limited

Related corporation

(No. of ordinary shares)

Mr Surong Bulakul	73,000	73,000	36,800	36,800
Ms Rosaya Teinwan	15,000	15,000	-	-

⁽¹⁾ On 24 April 2018, PTT Public Company Limited performed a 1 for 10 share split.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2018

Directors' interests in shares or debentures (continued)

- (b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year hold any interests in options to subscribe for ordinary shares of the Company.

Share options

No options were granted during the financial year to subscribe for unissued shares of the Company.

No shares were issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

Rosaya Teinwan

Director

8 February 2019

Surong Bulakul

Director

INDEPENDENT AUDITOR'S REPORT

To The Members of Sakari Resources Limited

Report on the Audit of the Financial Statements

Our opinion

In our opinion, the accompanying consolidated financial statements of Sakari Resources Limited (“the Company”) and its subsidiaries (“the Group”) and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Financial Reporting Standards in Singapore (“FRSs”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

What we have audited

The financial statements of the Company and the Group comprise:

- the consolidated income statement of the Group for the financial year ended 31 December 2018;
- the consolidated statement of comprehensive income of the Group for the financial year then ended;
- the balance sheets of the Group and the Company as at 31 December 2018;
- the consolidated statement of changes in equity of the Group for the financial year then ended;
- the consolidated statement of cash flows of the Group for the financial year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

INDEPENDENT AUDITOR'S REPORT

To The Members of Sakari Resources Limited

Other Information

Management is responsible for the other information. The other information comprises the Directors' Statement (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the other sections of the annual report ("the Other Sections"), which are expected to be made available to us after that date.

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

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

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

When we read the Other Sections, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with SSAs.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

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

The directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

To The Members of Sakari Resources Limited

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

To The Members of Sakari Resources Limited

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
Singapore, 8 February 2019

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December 2018

	Note	Group	
		2018	2017
		US\$'000	US\$'000
Revenue	4	636,729	580,570
Cost of sales	7	(458,369)	(447,040)
Gross profit		178,360	133,530
Other income	5	1,691	4,105
Other losses - net			
- Impairment loss on financial assets		(295)	-
- Others	6	(7,052)	(22,720)
Expenses			
- Finance	9	(1,189)	(3,895)
- Corporate and technical support	7	(12,696)	(11,404)
Profit before income tax		158,819	99,616
Income tax expense	10	(68,711)	(10,509)
Profit for the year		90,108	89,107
Profit attributable to:			
Equity holders of the Company		90,108	89,110
Non-controlling interests		-	(3)
		90,108	89,107
Earnings per share attributable to equity holders of the Company (US\$ per share):			
Basic and diluted	11	0.08	0.08

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2018

	Note	2018 US\$'000	Group 2017 US\$'000
Profit for the year		90,108	89,107
Other comprehensive (loss)/income:			
Item that will not be reclassified subsequently to profit or loss:			
Financial assets, at FVOCI			
- Fair value loss – equity investment	18	(3,569)	-
Remeasurement of defined benefit plans		143	(306)
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
- Fair value gain – equity investment	17	-	1,650
Other comprehensive (loss)/income, net of tax		(3,426)	1,344
Total comprehensive income		86,682	90,451
Total comprehensive income attributable to:			
Equity holders of the Company		86,682	90,454
Non-controlling interests		-	(3)
		86,682	90,451

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

As At 31 December 2018

	Note	Group		Company	
		2018	2017	2018	2017
		US\$'000	US\$'000	US\$'000	US\$'000
ASSETS					
Current assets					
Cash and cash equivalents	12	107,421	49,209	1,633	939
Trade and other receivables	13	81,845	70,924	305,270	343,956
Derivative financial instruments	23	8,933	756	-	-
Inventories	14	30,432	28,777	-	-
Tax receivables	15	3,699	52,972	-	-
		232,330	202,638	306,903	344,895
Non-current assets					
Other receivables	16	19,417	13,538	-	-
Available-for-sale financial assets	17	-	5,392	-	-
Financial assets, at FVOCI	18	1,823	-	-	-
Tax receivables	15	8,264	13	-	-
Investments in subsidiaries		-	-	67,350	67,202
Property, plant and equipment	19	548,868	564,134	456	541
Exploration and evaluation	20	12,463	12,463	-	-
Deferred income tax assets	21	5,756	6,430	-	-
		596,591	601,970	67,806	67,743
Total assets		828,921	804,608	374,709	412,638
LIABILITIES					
Current liabilities					
Trade and other payables	22	87,315	117,491	432	891
Derivative financial instruments	23	1,462	1,147	-	-
Current income tax liabilities		20,491	21,859	950	1,138
Borrowings	24	-	40,000	-	40,000
Provisions	25	5,426	1,663	577	380
		114,694	182,160	1,959	42,409

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

As At 31 December 2018

Non-current liabilities

Deferred income tax liabilities	27	49,252	50,633	817	726
Provisions	26	19,138	12,660	-	-
		68,390	63,293	817	726
Total liabilities		183,084	245,453	2,776	43,135
NET ASSETS		645,837	559,155	371,933	369,503

EQUITY

Capital and reserves attributable to equity holders of the Company

Share capital	28	328,767	328,767	328,767	328,767
Treasury shares	28	(286)	(286)	(286)	(286)
Other reserves	29	(18,641)	(7,522)	8,403	8,403
Retained profits	30	336,210	238,409	35,049	32,619
		646,050	559,368	371,933	369,503
Non-controlling interests		(213)	(213)	-	-
Total equity		645,837	559,155	371,933	369,503

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2018

← Attributable to equity holders of the Company →

		Share capital	Treasury shares	Other reserves	Retained profits	Total	Non-controlling interests	Total equity
Note	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
2018								
	Balance as at 31 December 2017	328,767	(286)	(7,522)	238,409	559,368	(213)	559,155
	Adoption of FRS 109	-	-	(7,693)	7,693	-	-	-
	Balance at 1 January 2018	328,767	(286)	(15,215)	246,102	559,368	(213)	559,155
	Profit for the year	-	-	-	90,108	90,108	-	90,108
	Other comprehensive loss for the year	-	-	(3,426)	-	(3,426)	-	(3,426)
	Total comprehensive income for the year	-	-	(3,426)	90,108	86,682	-	86,682
	Balance as at 31 December 2018	328,767	(286)	(18,641)	336,210	646,050	(213)	645,837
2017								
	Balance as at 1 January 2017	328,767	(286)	(8,866)	149,299	468,914	(210)	468,704
	Profit for the year	-	-	-	89,110	89,110	(3)	89,107
	Other comprehensive income for the year	-	-	1,344	-	1,344	-	1,344
	Total comprehensive income for the year	-	-	1,344	89,110	90,454	(3)	90,451
	Balance as at 31 December 2017	328,767	(286)	(7,522)	238,409	559,368	(213)	559,155

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

	Note	Group	
		2018	2017
		US\$'000	US\$'000
Cash flows from operating activities			
Receipts from customers		623,163	593,638
Receipt of security bond placed with a bank		-	1,200
Payments to suppliers and employees		(477,547)	(414,763)*
Payments for derivative financial instruments		(11,491)	(5,717)
Cash generated from operations		134,125	174,358
Interest received		13,639	4,105
Income taxes paid		(83,344)	(44,420)
Income taxes refunded		47,391	7,567
Net cash provided by operating activities	36	111,811	141,610
Cash flows from investing activities			
Additions to property, plant and equipment		(11,970)	(12,985)*
Disposal of property, plant and equipment		67	-
Loans to a related corporation		(11)	-
Net cash used in investing activities		(11,914)	(12,985)
Cash flows from financing activities			
Proceeds from borrowings		-	30,000
Repayment of borrowings		(40,000)	(140,000)
Interest paid		(952)	(3,470)
Net cash used in financing activities		(40,952)	(113,470)
Net increase in cash and cash equivalents			
		58,945	15,155
Cash and cash equivalents at beginning of the financial year		49,209	34,391
Effect of exchange rate movements on cash and cash equivalents		(733)	(337)
Cash and cash equivalents at end of the financial year	12	107,421	49,209

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2018

* The comparative figures have been restated to conform to the current financial year's presentation

	2017 Reclassified US\$'000	2017 Previously reported US\$'000
<i>Cash flows from operating activities</i>		
Payments to suppliers and employees	(414,763)	(385,268)
<i>Cash flows from investing activities</i>		
Additions to property, plant and equipment	(12,985)	(42,480)

Reconciliation of liabilities arising from financing activities

	1 January 2018 US\$'000	Proceeds US\$'000	Principal and interest payments US\$'000	Non-cash changes	31 December 2018 US\$'000
				Interest expense US\$'000	
Borrowings	40,000	-	(40,000)	-	-
Other payables due to a related corporation	46	-	(952)	906	-

	1 January 2017 US\$'000	Proceeds US\$'000	Principal and interest payments US\$'000	Non-cash changes	31 December 2017 US\$'000
				Interest expense US\$'000	
Borrowings	150,000	30,000	(140,000)	-	40,000
Other payables due to a related corporation	46	-	(3,470)	3,470	46

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

The Company is incorporated and domiciled in Singapore. The address of its registered office is 391B Orchard Road, Ngee Ann City, Tower B #17-01, Singapore 238874. Sakari Resources Limited and its subsidiaries together are referred to in these financial statements as the Group.

The principal activity of the Company is that of investment holding. The Group is principally engaged in the exploration for and mining and marketing of coal.

The Company's immediate parent company is PTT Mining Ltd, a company incorporated in Hong Kong. The Company's ultimate parent company is PTT Public Company Limited, a company incorporated in Thailand. The address of PTT Public Company Limited is 555 Vibhavadi Rangsit Road, Chatuchak, Bangkok 10900, Thailand.

2. Summary of significant accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2018

On 1 January 2018, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Interpretations and amendments to published standards effective in 2018 (continued)

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years except for the following:

Adoption of FRS 115 Revenue from Contracts with Customers

The Group has adopted the new standard using the modified retrospective approach with the cumulative impact of the adoption recognised in the opening retained earnings at 1 January 2018. Comparative information for 2017 are not restated.

The accounting policies for revenue from contracts with customers under FRS 115 are disclosed in Note 2(d).

As the majority of the Group's revenue is derived from arrangements in which the transfer of risks and rewards coincides with the fulfilment of performance obligations and transfer of control as defined by FRS 115, there are no material changes in respect of the timing and amount of revenue currently recognised by the Group.

Adoption of FRS 109 Financial Instruments

The Group has adopted the new standard retrospectively from 1 January 2018, in line with the transition provision permitted under the standards. Comparatives for financial year ended 31 December 2017 are not restated and the Group has recognised any difference between the carrying amounts at 31 December 2017 and 1 January 2018 in the opening retained earnings.

The accounting policies for financial instruments under FRS 109 are disclosed in Note 2(j).

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Interpretations and amendments to published standards effective in 2018 (continued)

Adoption of FRS 109 Financial Instruments (continued)

The effects on adoption of FRS 109 are as follows:

	← Financial Assets →			
	Available- for-sale (AFS)	Financial assets, at FVOCI (FVOCI)	Other reserves	Retained profits
	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 31 December 2017 before adoption of FRS 109	5,392	-	(7,522)	238,409
Reclassify equity investments from AFS to FVOCI	(5,392)	5,392	(7,693)	7,693
Balance at 1 January 2018 after adoption of FRS 109	-	5,392	(15,215)	246,102

(i) *Equity investments reclassification from available-for-sale to FVOCI*

The Group has elected to recognise changes in the fair value of all its equity investments not held for trading and previously classified as available-for-sale, in other comprehensive income. As a result, “Available-for-sale financial assets” of US\$5,392,000 were reclassified to “Financial assets, at FVOCI” on 1 January 2018. Impairment loss of US\$7,693,000 previously recognised in profit or loss was reclassified to fair value reserves on the same date. Fair value gains and losses will continue to be recognised in other comprehensive income and accumulated in fair value reserve. However, gain or losses realised on the sale of such assets will no longer be transferred to profit or loss on sale, but instead reclassified from fair value reserve to retained profits.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(i) *Impairment of financial assets*

The Group has the following financial assets subject to the expected credit loss impairment model under FRS 109:

- cash and bank deposits;
- trade receivables recognised under FRS 115; and
- other receivables at amortised cost

The impairment methodology for each of these classes of financial assets under FRS 109 is disclosed in Note 2(j). There is no significant increase in impairment loss for these financial assets as at 1 January 2018.

(b) Group accounting

(i) *Subsidiaries*

Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment indicator of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated income statement, consolidated statement of comprehensive income, statement of changes in equity, and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(b) Group accounting (continued)

Acquisitions

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed, is recorded as goodwill.

Disposals

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained profits if required by a specific Standard.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(b) Group accounting (continued)

(i) *Subsidiaries (continued)*

Disposals (continued)

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph “Investments in subsidiaries” for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(ii) *Transactions with non-controlling interests*

Changes in the Group’s ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

(c) Currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The financial statements are presented in United States Dollars, which is the functional currency of the Company.

(ii) *Transactions and balances*

Transactions in a currency other than the functional currency (“foreign currency”) are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

Monetary items include primarily financial assets (other than equity investments) and financial liabilities.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(c) Currency translation (continued)

(i) *Transactions and balances (continued)*

Foreign exchange gains and losses impacting profit or loss are presented in the income statement within other losses – net.

Non-monetary items are measured at fair value in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(iii) *Translation of Group entities' financial statements*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing exchange rates at the reporting date;
- (ii) income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) all resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal with loss of control of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

(d) Revenue from contracts with customers

(i) *Sale of goods – Coal*

The Group recognised revenue from the sales of coal when control of the products has transferred to its customers, being when the products are delivered to the locations specified by its customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risk of loss has been transferred to the customer, and either the customer has accepted the products in accordance with the sales contracts or the Group has objective evidence that all criteria for acceptance have been satisfied.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(d) Revenue from contracts with customers (continued)

(i) *Sale of goods – Coal (continued)*

Revenue from these sales is recognised based on the price specified in the contract, net of value added tax, rebates, discounts and after eliminating sales within the Group. No element of financing is deemed present as the sales are made either with letter of credit or credit terms up to 30 days.

A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

(ii) *Provisional pricing*

Revenue from the sale of coal where the coal is provisionally priced pending a renegotiation of the sales contract is initially recognised at the invoiced provisional price. Subsequently, a best estimate based on the final benchmark price adjustment using an appropriate benchmark calculation is made. The difference between the carrying amount of the revenue recognised for the sale and the estimated price adjustment is recognised in revenue. This adjustment will continue until the contract price is negotiated. Accumulated experience is used to estimate the provisional pricing, using the most likely amount, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

(iii) *Rendering of services*

Revenue from logistics services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided.

The customers are invoiced monthly. A contract asset is recognised for the cumulative revenue recognised but not yet invoiced.

(iv) *Interest income*

Interest income is recognised using the effective interest method.

(v) *Dividend income*

Dividend income is recognised when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of dividend can be reliably measured.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(e) Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expenses in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

The Group accounts for investment tax credits (for example, productivity and innovative credit) similar to accounting for other tax credits where deferred tax asset is recognised for unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credit can be utilised.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(f) Leases

The Group leases mining equipment, office space, residential properties and office equipment under operating leases from non-related parties. Leases of mining equipment, office space, residential properties and office equipment where substantially all the risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(g) Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of such investments, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

(h) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

(i) Inventories

Run of mine coal and finished product coal is valued at the lower of cost and net realisable value. The cost of coal inventories is determined using the weighted average cost method. Costs includes direct material, overburden removal, mining, processing, labour incurred in the extraction process and an appropriate proportion of variable and fixed overhead costs directly related to mining activities. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

Inventories are classified as follows:

- (i) Run of mine: This is material extracted through the mining process.
- (ii) Finished product coal: These are products that have passed through all stages of the production process.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(i) Inventories (continued)

(iii) Consumables: These are goods or supplies to be either directly or indirectly consumed in the production process.

(j) Financial assets

The accounting for financial assets before 1 January 2018 are as follows:

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss (including derivative financial instruments), loans and receivables and available-for-sale financial assets. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term.

Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those expected to be realised later than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are presented as “trade and other receivables”, “other receivables” and “cash and cash equivalents” on the balance sheet.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade date—the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs of financial assets carried at fair value through profit or loss are recognised immediately as expenses.

Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss including the effects of currency translation, interest and dividends, are recognised in profit or loss when the changes arise.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

Interest and dividend income on available-for-sale financial assets are recognised separately in income. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in other comprehensive income and accumulated in the fair value reserve. Changes in the fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences.

Impairment

The Group assesses at the end of each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) *Loans and receivables*

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

(ii) Available-for-sale financial assets

In addition to the objective evidence of impairment described above, a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If there is objective evidence of impairment, the cumulative loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss. The amount of cumulative loss that is reclassified is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. The impairment losses recognised as an expense for an equity security are not reversed through profit or loss in subsequent period.

The accounting for financial assets from 1 January 2018 are as follows:

Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVPL).

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial asset.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

At subsequent measurement

(i) *Debt instruments*

Debt instruments mainly comprise of cash and cash equivalents and trade and other receivables.

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest method.

(ii) *Equity investments*

The Group subsequently measures all its equity investments at their fair values. The Group has elected to classify equity investments as FVOCI as these are strategic investments and the Group considers this to be more relevant. Movements in fair values of investments classified as FVOCI are recognised as “fair value gains and losses” in Other Comprehensive Income. Dividends from equity investments are recognised in profit or loss as “dividend income”.

Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 33 details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, lease receivables and contract assets, the Group applies the simplified approach permitted by FRS 109, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(j) Financial assets (continued)

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

On disposal of an equity investment, the difference between the carrying amount and sales proceed is recognised in profit or loss if there was no election made to recognise fair value changes in other comprehensive income. If there was an election made, any difference between the carrying amount and sales proceed amount would be recognised in other comprehensive income and transferred to retained profits along with the amount previously recognised in other comprehensive income relating to that asset.

(k) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(l) Derivative financial instruments and hedging activities

A derivative financial instrument for which no hedge accounting is applied is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. Changes in its fair value are recognised in profit or loss. The Group does not apply hedge accounting for its derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(m) Property, plant and equipment

(i) *Measurement*

All items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Components of cost*

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, as well as the estimated future costs of dismantling and removing the asset. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

(iii) *Mining properties*

Development expenditure incurred by the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises costs directly attributable to the construction of a mine and the related infrastructure and exclude physical assets, which are recorded in property, plant and equipment.

Once a development decision has been taken, the carrying amount of the exploration and evaluation assets relating to the area of interest is transferred to “mines under development” within mining properties and aggregated with the subsequent development expenditure.

A “mine under development” is reclassified to “mines in production” within mining properties at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

(iii) *Mining properties (continued)*

Mining properties comprise:

- Capitalised exploration and evaluation assets for properties now in production
- Development expenditure (including pre-production stripping)
- Acquisition costs and mineral rights acquired
- Production stripping (as described below in “deferred stripping costs”)

No amortisation is recognised in respect of development properties until they are reclassified as “mines in production”.

When further development expenditure is incurred in respect of a mining property after the commencement of production, such expenditure is carried forward as part of the “mines in production” asset when it is probable that additional future economic benefits associated with the expenditure will flow to the Group. Otherwise, such expenditure is classified as a cost of production.

“Mines in production” are amortised using the units-of-production method, with separate calculations being made for each area of interest. The units-of-production basis results in an amortisation charge proportional to the depletion of proved and probable reserves.

Identifiable mining properties acquired in a business combination are recognised as assets at their fair value. Development expenses incurred subsequent to the acquisition of the mining properties are accounted for in accordance with the policy outlined above.

These assets are tested for impairment in accordance with the policy in Note 2(o).

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

(iii) *Mining properties (continued)*

Deferred stripping costs

Overburden and other mine waste materials are often removed during the initial development of a mine site in order to access the mineral deposit. This activity is referred to as development stripping. The directly attributable costs are capitalised under mining properties. Capitalisation of development stripping costs ceases at the time that saleable material begins to be extracted from the mine and these costs are depreciated over the life of the mine using the units-of-production method.

Production stripping commences from the point saleable materials are being extracted from the mine. Stripping costs incurred during the production phase might benefit current period production and improve access to ore bodies in future periods. Where benefits are realised in the form of inventory produced in the current period, these costs are accounted for as part of the cost of producing inventory. Where a benefit of improved access exists, the costs are recognised as part of mine properties when the following criteria are met:

- (a) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- (b) the Group can identify the component of the ore body for which access has been improved; and
- (c) the costs relating to the stripping activity associated with that component can be measured reliably.

In identifying the components of the ore body, mining operations personnel will analyse the Group's mine plans. Generally a component will be subset of the total ore body and a mine may have several components, for example, certain quantities of coal within separate mining pits.

The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. This is accounted for as an addition to an existing asset, which the Group has determined to be "Mining properties".

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

(iii) *Mining properties (continued)*

Deferred stripping costs (continued)

When the costs of stripping to improve access to an ore body are not clearly distinguishable from the costs of producing current inventories, i.e., there is a mixture of waste and ore being removed, the stripping costs are allocated based on a relevant measure of production. This production measure is calculated for the identified component of the ore body. The Group uses the expected volume of waste extracted compared with the actual volume for a given volume of ore production.

The stripping activity asset is subsequently amortised using the units of production method over the life of the identified component of the ore body for which access has been improved. Economically recoverable reserves, which comprise proven and probable reserves, are used to determine the expected useful life of the identified component of the ore body. The stripping activity asset is then carried at cost less depreciation and impairment losses, if any.

(iv) *Depreciation of plant, property and equipment*

The depreciable amount of items of property, plant and equipment are depreciated over their useful lives, or over the remaining life of the mine if shorter. Depreciation commences when an asset is available for use. The major categories of property, plant and equipment are depreciated either on a units-of-production and/or straight-line basis as follows:

Units-of-production basis

For mining properties and land rights and certain mining equipment, the economic benefits from the asset are consumed in a pattern which is linked to the production level. Except as noted below, such assets are depreciated on a units-of-production basis.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(m) Property, plant and equipment (continued)

(iv) *Depreciation of plant, property and equipment (continued)*

Straight line basis

Assets which have a physical life shorter than the related mine or whose usage is not directly related to production levels, are depreciated on a straight line basis as follows:

- Buildings 20 years
- Plant and equipment 3 – 15 years
- Capital work in progress Not depreciated

Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively. In applying the units-of-production method, depreciation/amortisation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable reserves. Non-reserve material may be included in depreciation/amortisation calculations where there is a high degree of confidence in its economic extraction. Reserves/resources and life of mine estimates are reviewed on an annual basis and depreciation calculations are adjusted accordingly where necessary.

(v) *Subsequent expenditure*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset 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. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(vi) *Disposal*

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within “other losses – net”.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(n) Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of the commercial viability of an identified resource. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the income statement. Exploration and evaluation expenditure are capitalised in respect of each area of interest for which the rights to tenure are current and where:

- (i) The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest; or alternatively, by its sale; or
- (ii) Exploration and evaluation activities in the area of interest have not reached a stage which permits a reasonable assessment of the existence (or otherwise) of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation expenditure comprises costs that are directly attributable to: acquisition of rights to explore, researching and analysing existing exploration data, gathering exploration data through topographical, geochemical and geophysical studies, exploratory drilling, trenching and sampling, determining and examining the volume and grade of the resource, examining and testing extraction and treatment methods, surveying transportation and infrastructure requirements, compiling pre-feasibility and feasibility studies and/or gaining access to areas of interest including occupancy and relocation compensation.

General and administration costs are allocated to, and included in, the cost of an exploration and evaluation asset only to the extent that those costs can be related directly to operational activities in the area of interest to which the exploration and evaluation asset relates. In all other cases, these costs are expensed as incurred.

Exploration and evaluation assets are transferred to mining properties, a component of property, plant and equipment, when the technical feasibility and commercial viability of extracting the mineral resource are demonstrable and sanctioned by the Board.

Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(n) Exploration and evaluation expenditure (continued)

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. Where a potential impairment is indicated, assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the exploration and evaluation asset is attributable. To the extent that capitalised exploration and evaluation expenditure is not expected to be recovered it is charged to the income statement.

Cash flows associated with exploration and evaluation expenditure are classified as investing activities in the consolidated statement of cash flows.

(o) Impairment of non-financial assets

Property, plant and equipment
Investments in subsidiaries

Property, plant and equipment and investments in subsidiaries are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and the recoverable amount is recognised as an impairment loss in profit and loss.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(p) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

(q) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

(r) Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction or development of property, plant and equipment. This includes those costs on borrowings acquired specifically for the construction or development of property, plant and equipment, as well as those in relation to general borrowings used to finance the construction or development of property, plant and equipment.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(s) Provisions (continued)

Other provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the statement of comprehensive income as finance expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

Provision for rehabilitation and dismantling

The Group has present obligations to dismantle, remove, restore and rehabilitate certain items of property, plant and equipment and mining pits. The Group recognises the estimated costs of dismantlement, removal or restoration or rehabilitation of items of property, plant and equipment arising from the acquisition or use of assets. The provisions are estimated based on the best estimate of the expenditure required to settle or transfer the obligation, taking into consideration the time value of money.

The estimated costs are measured at the present value of the expenditure expected to be required to settle the obligation using the pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the income statement under finance expenses. Changes in the estimated timing or amount of the expenditure or discount rate are accounted for as a change in the corresponding capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in profit or loss.

(t) Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(i) *Wages and salaries*

Liabilities for wages and salaries expected to be settled within 12 months of the reporting date are recognised under Trade and other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(t) Employee compensation (continued)

(ii) *Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) *Termination benefits*

Termination benefits are those benefits which are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of FRS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(iv) *Defined contribution plans*

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(t) Employee compensation (continued)

(v) *Defined benefit plans*

Defined benefit plans are post-employment benefit pension plans other than defined contribution plans, which the Group pays to an employee on termination of employment, whether the termination is voluntary or not. These benefits are mandatory under certain jurisdictions the Group operates within.

The liability recognised in the balance sheet in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds (considering there is no deep market for high-quality corporate bonds) that are denominated in the currency in which the benefits will be paid, and have tenures approximating to that of the related post-employment benefit obligations.

Actuarial gains and losses arising from changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period when they arise.

Past service costs are recognised immediately in profit or loss.

(vi) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(u) Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

2. Summary of significant accounting policies (continued)

(u) Share capital and treasury shares (continued)

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the carrying amount which includes the consideration paid and any directly attributable transaction cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained profits of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to an employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

(v) Dividends to the Company's shareholders

Dividends to the Company's shareholders are recognised when the dividends are approved for payment.

(w) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the net profit after income tax attributable to equity holders of the Company, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted earnings per share*

For the purpose of calculating diluted earnings per share, profit attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

3. Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

(i) *Estimation for the provision for rehabilitation and dismantling*

Provisions for rehabilitation and dismantling of property, plant and equipment and mining pits are estimated taking into consideration facts and circumstances of the Group's mining properties available at the balance sheet date. These estimates are based on the expenditure required to transfer or settle the obligation for rehabilitation and dismantling, taking into consideration the time value of money. Cost estimates can vary in response to many factors including changes to the relevant legal or local/national government ownership requirements, the Group's environmental policies, the emergence of new restoration techniques, the timing of the expenditures and the effects of inflation. Experience gained at other mine or production sites is also a significant consideration. Cost estimates are updated throughout the life of the operation.

The expected timing of expenditure included in cost estimates can also change, for example in response to changes in ore reserves, production rates, operating license or economic conditions. Cash flows are discounted if this has a material effect. The selection of appropriate sources on which to base calculation of the risk free discount rate used for this purpose also requires judgement.

Changes in these estimates and assumptions may impact the carrying value of the provision for rehabilitation and dismantling of property, plant and equipment and mining pits. The provision recognised is reviewed at each reporting date and updated based on the facts and circumstances available at that time.

(ii) *Estimated impairment of nonfinancial assets*

Property, plant and equipment, exploration and evaluation and investment in subsidiaries, are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. The recoverable amounts of assets and where applicable, cash generating units, are determined based on value-in-use calculations which require the use of estimates.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

3. Critical accounting estimates, assumptions and judgements (continued)

(ii) *Estimated impairment of non-financial assets (continued)*

The determination of fair value and value-in-use requires management to make estimates and assumptions about expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves, operating costs, closure and rehabilitation costs and future capital expenditure. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in profit or loss. Management expects that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of non-financial assets to exceed its recoverable amount.

(iii) *Uncertain tax positions*

The Group is subject to income taxes in Singapore and Indonesia. The Group operates in these jurisdictions where legislative applications can give rise to uncertain tax positions. Management believe that the current tax positions taken by the Group are appropriate and supportable by expert advice where relevant. In determining the income tax liabilities, management is required to estimate the amount of capital allowances and the deductibility of certain expenses (“uncertain tax positions”) at each jurisdiction. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made. Details of the uncertain tax positions are disclosed in Note 10.

Deferred tax assets, including those arising from unrecouped tax losses, capital allowances and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management’s estimates of future cash flows. These depend on estimates of future production, sales volumes or sales of service, commodity prices, reserves, operating costs, restoration and reclamation costs, capital expenditure, dividends and other capital management transactions.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

3. Critical accounting estimates, assumptions and judgements (continued)

(iv) Determination of coal reserves

Judgement is required in determining the Group's coal reserves taking into account various assumptions regarding mining costs and the sale price of the particular resource concerned. The Group's economically recoverable coal reserves are sensitive to the cost and revenue assumptions used due to the geological structure of the deposits, which means that, all other factors remaining the same, higher cost assumptions or lower price assumptions will result in lower estimated reserves, and lower cost assumptions or higher price assumptions will result in higher estimated reserves. The Group bases all assumptions on geological reports and uses only measured reserves.

Additional geological data is gathered during the course of mining operations and this, in conjunction with the various assumptions used, could result in a change in estimated coal reserves from period to period. Changes in estimated coal reserves could affect the Group's financial results in a number of ways, including the rate of depreciation and amortisation of plant, property and equipment as well as the carrying value of certain mine assets due to change in estimates of mine life and future discounted cash flows.

(v) Deferred stripping costs

Certain mining costs, principally those that relate to the stripping of waste and which relate to future economically recoverable coal to be mined, are capitalised and included in mining properties, which is classified in the balance sheet under property, plant and equipment. These costs are deferred and subsequently taken to the cost of production through the amortisation of mining properties. The waste to ore ratio and the remaining life of the mine are regularly assessed by the Board and senior management to ensure the carrying value and rate of deferral is appropriate taking into consideration the available facts and circumstances from time to time.

Significant judgement is required to distinguish between stripping costs related to the extraction of inventory and that which relates to the creation of a stripping activity asset.

The carrying value of the deferred stripping cost as at 31 December 2018 is US\$84 million (2017: US\$70 million) respectively.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

3. Critical accounting estimates, assumptions and judgements (continued)

(vi) Capitalisation and impairment of exploration and evaluation assets

Exploration and evaluation expenditures are capitalised on the balance sheet, in respect of areas of interest for which the rights of tenure are current and where such costs are expected to be recouped or exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves. The carrying value of assets within each area of interest are reviewed regularly taking into consideration the available facts and circumstances, and to the extent to which the capitalised value exceeds its recoverable value, the excess is provided for or written off in the year in which this is determined.

4. Revenue

	Group		
	At a point in time US\$'000	Over time US\$'000	Total US\$'000
2018			
Coal sales	634,305	-	634,305
Logistics service revenue	-	2,370	2,370
Other revenue	54	-	54
	634,359	2,370	636,729
2017			
Coal sales	578,283	-	578,283
Logistics service revenue	-	2,271	2,271
Other revenue	16	-	16
	578,299	2,271	580,570

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

5. Other income

	Group	
	2018	2017
	US\$'000	US\$'000
Interest income	1,691	4,105

6. Other losses – net

	Group	
	2018	2017
	US\$'000	US\$'000
Fair value losses on derivative financial instruments	(3,629)	(4,947)
Foreign exchange (losses)/gains – net	(1,872)	680
Write-off of property, plant and equipment (note 19)	-	(18,453)
Gain on sale of property, plant and equipment	28	-
Compensation for early termination of contract	(1,529)	-
Others	(50)	-
	(7,052)	(22,720)

7. Expenses by nature

	Group	
	2018	2017
	US\$'000	US\$'000
Depreciation and amortisation (note 19)	36,796	34,579
Deferred stripping amortisation (note 19)	30,920	29,178
Mining	275,132	238,078
Processing	6,613	7,311
Movement in inventories	23,913	20,749
Barging and shipping	33,668	28,619

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

7. Expenses by nature (continued)

Agency fees and royalties	39,658	42,408
Direct site support	24,238	9,405
Employee compensation (note 8)	14,231	15,103
Corporate, consulting and technical services fees	9,334	12,005
Operating leases rentals	692	766
Refund of withholding and value-added taxes incurred in prior years	(27,913)	(5,612)*
Other expenses	3,783	25,855*
Total cost of sales and corporate and technical support expenses	471,065	458,444

* The prior year comparatives have been reclassified to conform to changes in presentation for the current year.

8. Employee compensation

	Group	
	2018	2017
	US\$'000	US\$'000
Wages and salaries	12,712	13,453
Employer's contributions to defined contribution plans	421	490
Other staff benefits	1,098	1,160
	14,231	15,103

9. Finance expenses

	Group	
	2018	2017
	US\$'000	US\$'000
Interest expense	906	3,470
Bank charges	283	425
	1,189	3,895

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

10. Income taxes

	Group	
	2018	2017
	US\$'000	US\$'000
Income tax expense		
Tax expense attributable to profit is made up of:		
Current income tax	42,351	42,779
Deferred income tax	(1,914)	(7,418)
	40,437	35,361
Under/(over) provision in prior financial years:		
Current income tax	27,067	(22,098)
Deferred income tax	1,207	(2,754)
	28,274	(24,852)
Total income tax expense	68,711	10,509
Deferred income tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 21)	1,820	278
Decrease in deferred tax liabilities (note 27)	(2,527)	(10,450)
	(707)	(10,172)

The tax on the Group's profit differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

	Group	
	2018	2017
	US\$'000	US\$'000
Profit before income tax	158,819	99,616
Tax calculated at tax rate of 17 % (2017: 17%)	26,999	16,935

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

10. Income taxes (continued)

Effects of:

- expenses not deductible for tax purposes	1,668	5,704
- lower tax rate under incentive scheme	276	1,428
- different tax rates in other countries	11,494	11,294
- under/(over) provision in prior years	28,274	(24,852)
Income tax expense	68,711	10,509

The Group has unrecognised tax losses of US\$18,899,000 (2017: US\$41,959,000) at the balance sheet date which can be carried forward and used to offset against future taxable income for up to five years subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their country of incorporation.

Tax audits of subsidiaries

The Group's Indonesia subsidiaries are regularly subjected to routine tax audits in accordance with tax law of Indonesia. These routine audits cover Corporate Income Tax ("CIT"), Value Added Taxes ("VAT"), Withholding Taxes ("WHT"), and Land and Building Tax ("LBT"). Additional assessments are given upon completion of these audits and these subsidiaries may disagree with any additional tax assessments and may submit objections to the Director General of Tax ("DGT"), Indonesia, failing which the company may proceed to appeal to the Indonesian Tax Court.

Management is currently disputing certain additional assessments arising from the tax audits for the following fiscal years and has either submitted objections to the DGT or proceeded to the Indonesian Tax Court for appeal.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

10. Income taxes (continued)

Tax audits of subsidiaries (continued)

Indonesia subsidiaries	Fiscal year	Status	Nature of tax dispute	Dispute amount US\$'000
PT Jembayan Muarabara	2013	Submitted objection to DGT	LBT	488
PT Arzara Baraindo Energitama	2013	Submitted objection to DGT	LBT	301
PT Kemilau Rindang Abadi	2013	Submitted objection to DGT	LBT	482
PT Borneo Citrapertiwi Nusantara	2016	Submitted objection to DGT	CIT, VAT	658
PT Metalindo Bumi Raya	2015	Tax Court Appeal	CIT	8,264
				<u>10,193</u>

* Assessments denominated in Indonesia Rupiah were translated to United States Dollar based on exchange rate as at 31 December 2018.

Management has engaged tax consultants and where necessary, legal advisors to evaluate each case prior to submission for Tax Court appeal. Management, in consultation with tax consultants and legal advisors, believes that the Group has good technical grounds to defend the challenges from the tax authorities.

The above disclosures relate only to those fiscal years which have been subject to tax audit and for which additional assessments were made. Additional assessments may arise for other fiscal years in subsequent financial years when the respective fiscal years become subject to audit.

11. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. There are no dilutive potential ordinary shares at balance sheet date.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

11. Earnings per share (continued)

	Group	
	2018	2017
Basic and diluted earnings per share		
Net profit attributable to equity holders of the Company (US\$'000)	90,108	89,110
Weighted average number of ordinary shares outstanding ('000)	1,137,052	1,137,052
Basic and diluted earnings per share (US\$)	0.08	0.08

12. Cash and cash equivalents

	Group		Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Cash at bank and on hand	62,421	49,209	1,633	939
Short-term bank deposits	45,000	-	-	-
	107,421	49,209	1,633	939

13. Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables				
Non-related parties	41,714	59,492	-	-
Less: Loss allowance	(1,040)	(784)	-	-
Trade receivable - net	40,674	58,708	-	-

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

13. Trade and other receivables (continued)

Other receivables

- Immediate holding corporation	-	1	-	1
- Related corporations	127	103	63	52
- Subsidiaries	-	-	306,327	343,665
- Non-related parties	32,675	10,780	776	789
	32,802	10,884	307,166	344,507
Less: Loss allowance	-	-	(2,056)	(832)
Other receivables - net	32,802	10,884	305,110	343,675
Accrued income	7,154	196	-	-
Prepayments	1,215	1,136	160	281
	8,369	1,332	160	281
	81,845	70,924	305,270	343,956

Other receivables due from subsidiaries are unsecured, interest-bearing at the London Interbank Offered Rate (“LIBOR”) plus 3.44% (2017: 2.44%) and are repayable on demand.

Other receivables due from a related corporation and immediate holding corporation are unsecured, interest-free and repayable on demand.

14. Inventories

	Group	
	2018	2017
	US\$'000	US\$'000
Run of mine stockpiles	7,588	7,735
Finished product coal	19,892	17,885
Consumables	2,952	3,157
	30,432	28,777

15. Tax receivables

Tax receivables represent advance tax payments made by the Group for certain fiscal years. Tax receivables are presented as current assets if they are expected to be realised within 12 months after balance sheet date.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

16. Other receivables

	2018	Group
	US\$'000	2017 US\$'000
Security deposits	19,417	13,538

Long term security bonds and deposits are placed with various agencies, which will be settled on completion of certain governmental or legal requirements.

17. Available-for-sale financial assets

	2018	Group
	US\$'000	2017 US\$'000
Beginning of financial year	5,392	3,742
Reclassification at 1 January 2018*	(5,392)	-
Fair value gain recognised in other comprehensive income (note 29(e))	-	1,650
End of financial year	-	5,392

* See Note 2(a) for details of reclassification as at 1 January 2018 on adoption of FRS 109.

Available-for-sale financial assets are analysed as follows:

	2018	Group
	US\$'000	2017 US\$'000
Listed securities		
Equity securities – Australia	-	5,392

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

18. Financial assets, at FVOCI

	Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	-	-
Reclassification at 1 January 2018*	5,392	-
Fair value losses (Note 29(e))	(3,569)	-
End of financial year	<u>1,823</u>	-

* See Note 2(a) for details of reclassification as at 1 January 2018 on adoption of FRS 109.

	Group	
	2018 US\$'000	2017 US\$'000
Listed equity securities		
- Xanadu Mines Limited	<u>1,823</u>	-

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

19. Property, plant and equipment

	Capital work in progress	Mining properties	Buildings	Plant and equipment	Land rights	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Group						
2018						
Beginning of financial year	21,796	413,400	935	50,380	77,623	564,134
Additions	3,401	46,306	21	648	6,810	57,186
Transfers (to)/from other classes	(17,119)	3,139	40	836	13,104	-
Depreciation/amortisation charge (note 7)	-	(24,869)	(86)	(4,463)	(7,378)	(36,796)
Deferred stripping amortisation (note 7)	-	(30,920)	-	-	-	(30,920)
Disposal/write-off	(2,575)	(1,748)	(37)	(376)	-	(4,736)
End of financial year	5,503	405,308	873	47,025	90,159	548,868
At 31 December 2018						
Cost	5,503	959,069	4,323	143,621	132,014	1,244,530
Accumulated depreciation/ amortisation	-	(545,947)	(3,450)	(96,596)	(41,855)	(687,848)
Accumulated impairment	-	(7,814)	-	-	-	(7,814)
Net book amount	5,503	405,308	873	47,025	90,159	548,868
	Capital work in progress	Mining properties	Buildings	Plant and equipment	Land rights	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Group						
2017						
Beginning of financial year	13,449	455,083	455	54,430	80,996	604,413
Additions	11,105	29,417	529	346	534	41,931
Transfers (to)/from other classes	(2,758)	222	-	129	2,407	-
Depreciation/amortisation charge (note 7)	-	(24,014)	(49)	(4,408)	(6,108)	(34,579)
Deferred stripping amortisation (note 7)	-	(29,178)	-	-	-	(29,178)
Disposal/write-off	-	(18,130)	-	(117)	(206)	(18,453)
End of financial year	21,796	413,400	935	50,380	77,623	564,134

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

19. Property, plant and equipment (continued)

At 31 December 2017

Cost	21,796	932,418	4,300	142,984	112,100	1,213,598
Accumulated depreciation/ amortisation	-	(511,204)	(3,365)	(92,604)	(34,477)	(641,650)
Accumulated impairment	-	(7,814)	-	-	-	(7,814)
Net book amount	21,796	413,400	935	50,380	77,623	564,134

Included within additions for mining properties in the consolidated financial statements are deferred stripping costs amounting to US\$45 million (2017: US\$29 million).

Mining properties are amortised on a units-of-production basis. The units-of-production calculation is based on estimated coal reserves.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

19. Property, plant and equipment (continued)

Company	Plant and equipment US\$'000	Capital work in progress US\$'000	Total US\$'000
2018			
Beginning of financial year	143	398	541
Additions	44	-	44
Transfers from/(to) other classes	10	(10)	-
Depreciation charge	(106)	-	(106)
Disposal	-	(23)	(23)
End of financial year	<u>91</u>	<u>365</u>	<u>456</u>

At 31 December 2018

Cost	3,237	365	3,602
Accumulated depreciation	(3,146)	-	(3,146)
Net book amount	<u>91</u>	<u>365</u>	<u>456</u>

Company	Plant and equipment US\$'000	Capital work in progress US\$'000	Total US\$'000
2017			
Beginning of financial year	140	13	153
Additions	92	387	479
Transfers from/(to) other classes	2	(2)	-
Depreciation charge	(91)	-	(91)
End of financial year	<u>143</u>	<u>398</u>	<u>541</u>

At 31 December 2017

Cost	3,183	398	3,581
Accumulated depreciation	(3,040)	-	(3,040)
Net book amount	<u>143</u>	<u>398</u>	<u>541</u>

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

20. Exploration and evaluation

	Group	
	2018 US\$'000	2017 US\$'000
Beginning and end of financial year	12,463	12,463

21. Deferred income tax assets

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
To be recovered after one year	4,566	6,386	489	448
Set-off of deferred tax assets pursuant to set-off provisions (note 27)	1,190	44	(489)	(448)
Net deferred income tax assets	5,756	6,430	-	-

Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable.

Movement in deferred income tax assets account is as follows:

Group	Tax losses US\$'000	Depreciation and amortisation US\$'000	Interest payable US\$'000	Provisions US\$'000	Total US\$'000
2018					
Beginning of financial year	3,685	(1,055)	453	3,303	6,386
Tax (charged)/credited to the income statement	752	(941)	39	(463)	(613)
(Over)/under provision in respect of prior year	(1,069)	186	-	(324)	(1,207)
End of financial year	3,368	(1,810)	492	2,516	4,566

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

21. Deferred income tax assets (continued)

2017

Beginning of financial year	2,003	(378)	1,427	3,612	6,664
Tax (charged)/credited to the income statement	1,788	(677)	(974)	(287)	(150)
Over provision in respect of prior year	(106)	-	-	(22)	(128)
End of financial year	3,685	(1,055)	453	3,303	6,386

Company	Depreciation and amortisation	Interest payable	Provisions	Total
	US\$'000	US\$'000	US\$'000	US\$'000
2018				
Beginning of financial year	(18)	453	13	448
Tax credited/(charged) to the income statement	5	39	(3)	41
End of financial year	(13)	492	10	489

2017

Beginning of financial year	(24)	1,427	14	1,417
Tax (charged)/credited to the income statement	6	(974)	(1)	(969)
End of financial year	(18)	453	13	448

22. Trade and other payables

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Trade payables	34,716	45,767	-	-
Other payables				
- Ultimate holding corporation	86	226	-	-
- Related corporations	563	898	109	112
- Non-related parties	7,055	9,540	301	745
Accrued expenses	44,895	61,060	22	34
	87,315	117,491	432	891

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

22. Trade and other payables (continued)

Other payables to the ultimate holding corporation and related corporations are unsecured, non-interest bearing and repayable on demand.

23. Derivative financial instruments

	Group	
	Fair value	
	Asset	Liability
	US\$'000	US\$'000
2018		
Currency forwards		
- Non-related party	524	-
Coal swaps		
- Related corporation	4,402	(197)
- Non-related parties	4,007	(1,265)
Total	8,933	(1,462)
2017		
Currency forwards		
- Non-related party	315	-
Coal swaps		
- Related corporation	175	(193)
- Non-related party	266	(954)
Total	756	(1,147)

The derivatives used by the Group are over-the-counter commodity derivatives which are measured at fair value and which will settle within 12 months of balance sheet date. The Group did not apply hedge accounting in 2018 and 2017.

24. Borrowings

	Group and Company	
	2018	2017
	US\$'000	US\$'000
Borrowings from a related corporation		
- Current	-	40,000

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

24. Borrowings (continued)

The exposure of the borrowings of the Group and of the Company to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

	Group and Company	
	2018	2017
	US\$'000	US\$'000
6 months or less	-	40,000

- (i) On 17 October 2013, the Group entered into a US\$100 million working capital facility agreement with PTT Regional Treasury Center (“PTTRTC”), a related corporation. The facility had a tenor of 12 months from 17 October 2013. This facility was further extended by 12 months yearly from 17 October 2013 to 17 October 2017. On 17 October 2017, the facility was reduced to US\$99 million and further extended by 12 months.

As at 31 December 2018, the loan under this facility was fully repaid (2017: US\$40 million). This loan was unsecured and interest-bearing at the 1-month London Interbank Offered Rate (“LIBOR”) plus 1.4% (2017: 1.4%).

- (ii) On 11 December 2014, the Group entered into a US\$200 million loan facility agreement with PTTRTC. The facility has a tenor of 36 months. As at 31 December 2017, the loan under this facility was fully repaid. This loan was unsecured and interest-bearing at the 6-months LIBOR plus 1.94%.

Fair value of borrowings

	Group		Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Fair value of borrowings				
Borrowings from a related corporation	-	40,000	-	40,000

The carrying amounts of borrowings approximate their fair values as these are variable rate borrowings with repricing within 1 to 6 months from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

25. Provisions – current

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Employee benefits (note 26(a))	3,446	1,663	577	380
Rehabilitation of mining areas (note 26(b))	1,980	-	-	-
	5,426	1,663	577	380

Movements in provisions

Movements in each class of provisions are as follows:

Group	Employee benefits US\$'000	Rehabilitation of mining areas US\$'000	Total US\$'000
2018			
Beginning of financial year	1,663	-	1,663
Provision made	3,020	1,980	5,000
Provision utilised during the year	(1,237)	-	(1,237)
End of financial year	3,446	1,980	5,426
2017			
Beginning of financial year	1,867	-	1,867
Provision made	2,198	-	2,198
Provision utilised during the year	(2,402)	-	(2,402)
End of financial year	1,663	-	1,663

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

25. Provisions – current (continued)

Company	Employee benefits US\$'000	Total US\$'000
2018		
Beginning of financial year	380	380
Provision made	431	431
Provision utilised during the year	(234)	(234)
End of financial year	577	577
2017		
Beginning of financial year	366	366
Provision made	501	501
Provision utilised during the year	(487)	(487)
End of financial year	380	380

26. Provisions – non-current

	Group	
	2018 US\$'000	2017 US\$'000
Employee benefits (a)	2,086	2,771
Rehabilitation and dismantling (b)	17,052	9,889
	19,138	12,660

(a) *Employee benefits*

Provision for employee benefits represents the amounts provided for in respect of defined benefit plans required by certain jurisdictions the Group operates in. The Group is required to pay these benefits on termination of employment, whether the termination was voluntary or not. These amounts are disclosed as non-current as they are not expected to be paid within 12 months from the balance sheet date.

(b) *Rehabilitation and dismantling*

Provision for rehabilitation and dismantling represents the expected cost to dismantle and remove or restore and rehabilitate properties and mining pits which the Group utilises. This provision represents the best estimate of the present value of the expenditure required to settle the obligation at the balance sheet date. This amount represents provisions that are expected to be settled more than 12 months from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

26. Provisions – non-current (continued)

(c) Movements in provisions

Movements in each class of provision are as follows:

Group	Employee benefits	Rehabilitation and dismantling	Total
	US\$'000	US\$'000	US\$'000
2018			
Beginning of financial year	2,771	9,889	12,660
Provision made	670	7,163	7,833
Provision utilised during the year	(1,355)	-	(1,355)
End of financial year	2,086	17,052	19,138
2017			
Beginning of financial year	3,947	9,559	13,506
Provision made	2,269	330	2,599
Provision utilised during the year	(3,445)	-	(3,445)
End of financial year	2,771	9,889	12,660

27. Deferred income tax liabilities

	Group		Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
To be settled after one year	48,062	50,589	1,306	1,174
Set-off of deferred tax liabilities pursuant to set-off provisions (note 21)	1,190	44	(489)	(448)
Net deferred income tax liabilities	49,252	50,633	817	726

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

27. Deferred income tax liabilities (continued)

Movement in deferred income tax liabilities account is as follows:

Group	Mining properties US\$'000	Other US\$'000	Total US\$'000
2018			
Beginning of financial year	49,416	1,173	50,589
Tax (credited)/charged to the income statement	(2,659)	132	(2,527)
End of financial year	46,757	1,305	48,062
2017			
Beginning of financial year	57,418	3,621	61,039
Tax credited to the income statement	(5,120)	(2,448)	(7,568)
Over provision in respect of prior year	(2,882)	-	(2,882)
End of financial year	49,416	1,173	50,589
Company			Other US\$'000
2018			
Beginning of financial year			1,174
Tax charged to the income statement			132
End of financial year			1,306
2017			
Beginning of financial year			3,622
Tax credited to the income statement			(2,448)
End of financial year			1,174

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

28. Share capital and treasury shares

	No. of ordinary shares		Amount	
	Issued share capital	Treasury shares	Share capital US\$'000	Treasury shares US\$'000
<u>Group and Company</u>				
2018				
Beginning and end of financial year	1,137,052,220	(7,908,101)	328,767	(286)
2017				
Beginning and end of financial year	1,137,052,220	(7,908,101)	328,767	(286)

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

29. Other reserves

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Share-based compensation reserve (a)	8,403	8,403	8,403	8,403
Capital reserve (b)	(13,526)	(13,526)	-	-
General reserve (c)	329	329	-	-
Merger reserve (d)	(7,752)	(7,752)	-	-
Fair value reserve (e)	(6,733)	4,529	-	-
Remeasurement of defined benefit plans	638	495	-	-
	(18,641)	(7,522)	8,403	8,403

Other reserves are non-distributable.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

29. Other reserves (continued)

(a) *Share-based compensation reserve*

	Group and Company	
	2018	2017
	US\$'000	US\$'000
Beginning and end of financial year	<u>8,403</u>	<u>8,403</u>

(b) *Capital reserve*

In January 2005, the Group acquired the remaining 20% equity interest of PT Bahari Cakrawala Sebuku ("PT BCS") for a consideration of US\$15,821,000. The acquisition consideration was satisfied by the allotment and issuance of 6,145,537 shares of S\$1 each at a premium of S\$3.18 per share. This reserve of US\$13,526,000 represents the difference between the value of the consideration paid for the acquisition of the 20% non-controlling interest in PT BCS prior to 2006 and the amount that these non-controlling interests were recognised in the financial statements.

(c) *General reserve*

	Group	
	2018	2017
	US\$'000	US\$'000
Beginning and end of financial year	<u>329</u>	<u>329</u>

The revised Indonesian Limited Company Law No. 40/2007 dated 16 August 2007 requires Indonesian companies to set up a general reserve amounting to 20% of the company's issued and paid up share capital. This reserve has been created in respect of the Group's Indonesian subsidiaries.

(d) *Merger reserve*

Merger reserve arising from a restructuring exercise representing the excess of cash consideration paid over the subsidiaries capital acquired and accounted for using the pooling of interest method.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

29. Other reserves (continued)

(e) *Fair value reserve*

	Group	
	2018 US\$'000	2017 US\$'000
Beginning of financial year	4,529	2,879
Adoption of FRS 109	(7,693)	-
Balance as at 1 January	(3,164)	2,879
Fair value (loss)/gain on financial assets, at FVOCI (note 18) (2017: available-for-sale financial assets (note 17))	(3,569)	1,650
End of financial year	(6,733)	4,529

The fair value reserve represents the mark to market over the cost of the investment (note 18) (2017: note 17).

30. Retained profits

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Beginning of financial year	238,409	149,299	32,619	27,004
Adoption of FRS 109 (note 2(a))	7,693	-	-	-
Balance as at 1 January	246,102	149,299	32,619	27,004
Net profit after tax	90,108	89,110	2,430	5,615
End of financial year	336,210	238,409	35,049	32,619

31. Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Property, plant and equipment	1,214	689	101	142

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

32. Operating lease commitments

The Group leases mining equipment, office space, residential properties and certain office equipment from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet dates but not recognised as liabilities are as follows:

	Group		Company	
	2018	2017	2018	2017
	US\$'000	US\$'000	US\$'000	US\$'000
Not later than one year	2,067	4,818	516	527
Between one and five years	1,319	1,886	1,259	270
	3,386	6,704	1,775	797

33. Financial risk management

Financial risk factors

The Group's activities are exposed to market risk (including currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial and commodity markets on the Group's financial performance. The Group uses financial instruments such as over-the-counter commodity swaps to hedge certain market risk exposures.

Management establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies and presents these policies to the Board of Directors for approval.

Financial risk management is carried out by treasury to evaluate and hedge financial risks in co-operation with the Group's operating units. Regular reports are also submitted to management and the Board of the Directors.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(a) Market risk

(i) Currency risk

The Group operates in Singapore and Indonesia. Entities in the Group regularly transact in their respective functional currency, which is the United States dollar (“USD”). Currency risk arises when transactions are denominated in foreign currencies such as the Singapore dollar (“SGD”), Australian dollar (“AUD”) and Indonesia rupiah (“IDR”).

The Group uses financial instruments such as forward exchange contracts to mitigate the currency risk.

The Group’s foreign currency exposure based on the information provided to key management is as follows:

	SGD US\$’000	IDR US\$’000	AUD US\$’000	Total US\$’000
At 31 December 2018				
Financial assets				
Cash and cash equivalents	421	9,573	-	9,994
Trade and other receivables	188	39,462	-	39,650
Financial assets, at FVOCI	-	-	1,823	1,823
	609	49,035	1,823	51,467
Financial liabilities				
Trade and other payables	402	76,017	76	76,495
	402	76,017	76	76,495
Net financial assets/ (liabilities)	207	(26,982)	1,747	(25,028)

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(a) *Market risk (continued)*

(i) *Currency risk (continued)*

At 31 December 2017

Financial assets

Cash and cash equivalents	621	25,767	-	26,388
Trade and other receivables	214	29,136	-	29,350
Available-for-sale financial assets	-	-	5,392	5,392
	835	54,903	5,392	61,130

Financial liabilities

Trade and other payables	690	86,349	344	87,383
	690	86,349	344	87,383

Net financial assets/ (liabilities)

	145	(31,446)	5,048	(26,253)
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The Company's foreign currency exposure based on the information provided to key management is as follows:

	← 2018 →			← 2017 →		
	SGD USD\$'000	AUD USD\$'000	Total USD\$'000	SGD USD\$'000	AUD USD\$'000	Total USD\$'000
Financial assets						
Cash and cash equivalents	172	-	172	381	-	381
Trade and other receivables	132	-	132	145	-	145
	304	-	304	526	-	526
Financial liabilities						
Trade and other payables	282	-	282	554	3	557
	282	-	282	554	3	557
Net financial assets/ (liabilities)	22	-	22	(28)	(3)	(31)

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

There are no foreseeable movements in the relevant exchange rates that are likely to have a material impact on the Group's and Company's results.

(ii) Price risk

The Group is exposed to thermal coal price risk generated by its mining activities. The Group sells coal either on a contracted or spot basis, with prices either fixed or index linked. Coal price risk is managed through contractual arrangements negotiated directly with customers, usually for a period of 12 months and through the use of derivative financial instruments.

Fuel is a major component of the Group's operating costs. The Group's exposure to changes in fuel prices is ultimately based on reference to a USD Mean of Platts Singapore ("MOPS") Gas Oil assessment price. This benchmark reference is used to determine diesel fuel prices in Indonesia, which are primarily passed through to the Group by mine contractors through rise and fall adjustment clauses.

The Group uses derivative financial instruments in the form of coal and gasoil swaps to hedge adverse movements in coal prices and gas-oil prices paid as part of the Group's mining costs. These instruments are over-the-counter derivative contracts referenced to indices and therefore underlying commodity prices of coal and gas-oil. If the referenced price for the open positions as at 31 December 2018 had increased/decreased by 10% (2017: 10%) with all other variables including tax rate being held constant, the profit after tax would have been lower/higher by US\$880,980 (2017: US\$2,424,690).

The Group has an equity investment which is classified as Financial assets, at FVOCI (2017: Available-for-sale financial assets) on the balance sheet that is exposed to equity securities price risk. If the price for the equity security listed on the Australian Securities Exchange had changed by 10% (2017: 10%) with all other variables including tax rate being held constant, the other comprehensive income would have been lower/higher by US\$182,250 (2017: US\$539,150).

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(a) *Market risk (continued)*

(iii) *Cash flow and fair value interest rate risks*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest bearing assets, the Group's income is substantially independent of changes in market interest rates.

The Group's main interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's borrowings are at variable rates and are denominated in USD. If the interest rates had increased/decreased by 0.50% (2017: 0.50%) with all other variables including tax rate being held constant, the profit after tax would have been lower/higher by US\$78,000 (2017: US\$551,000) as a result of higher/lower interest expense on these borrowings.

(b) *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions and derivative financial instruments, as well as credit exposures to trade customers, including outstanding receivables and contracted sales. The Group only deals with banks and financial institutions of good repute and standing.

The Group adopts the policy of dealing only with customers of appropriate credit standing and history, and obtaining letter of credit where appropriate to mitigate credit risk.

The Group's Credit Committee regularly evaluates and monitors all its trade customers based on a framework approved by the Board of Directors. The evaluation is based on the credit quality of each trade customer, taking into account their financial position, past experience and other relevant factors. Credit exposure to an individual customer is managed based on the credit evaluation. Customer payment profiles are monitored and reported regularly.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(b) Credit risk (continued)

There are no significant concentrations of credit risk through exposure to individual customers.

For derivative financial instruments, the Board of Directors has established limits so that management can hedge a maximum of 50% (2017: 50%) of the Group's coal sales during the year.

As the Group and Company do not hold collateral, the maximum exposure to credit risk for each class of financial instrument is the carrying amount of that class of financial assets presented on the balance sheet.

The Group and Company uses the following categories of internal credit risk rating for financial assets which are subject to expected credit losses under the 3-stage general approach. These 3 categories reflect the respective credit risk and how the loss provision is determined for each of those categories.

Category of internal credit rating	Definition of category	Basis for recognition of expected credit losses
Performing	Borrower or issuer have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected credit losses
Under-performing	Borrower or issuer for which there is a significant increase in credit risk; as significant in credit risk is presumed if interest and/or principal repayment are 30 days past due	Lifetime expected credit losses
Non-performing	Interest and/or principal payment are 180 days past due	Lifetime expected credit losses
Write-off	There is evidence indicating that the borrower or issuer is in significant financial difficulty and there is no reasonable expectation of recovery	Asset is written off

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(b) Credit risk (continued)

The movement in credit loss allowance for financial assets are set out as follows:

	Trade Receivables ^(a) US\$'000
Group	
Balances as at 31 December 2017 and 1 January 2018	784
Loss allowance recognised in profit or loss during the year on:	
- Asset acquired/originated	261
Receivables written off as uncollectible [#]	(5)
Balances as at 31 December 2018	<u>1,040</u>
	Other Receivables ^(a) US\$'000
Company	
Balances as at 31 December 2017 and 1 January 2018	832
Loss allowance recognised in profit or loss during the year on:	
- Changes in credit risk	7,423
Receivables written off as uncollectible [#]	(6,199)
Balances as at 31 December 2018	<u>2,056</u>

Amount written off during the period are still subject to enforcement activity.

(a) Loss allowance measured at lifetime ECL

Cash and cash equivalents of the Group and Company are subject to immaterial credit loss. Other receivables of the Group are subject to immaterial credit loss.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(b) Credit risk (continued)

Trade receivables

The Group has applied the simplified approach to measure the lifetime expected credit losses for trade receivables.

To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and days past due. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers, and adjusts for forward-looking macroeconomic data such as forecast of economic conditions where the gross domestic product will deteriorate over the next year, leading to an increased number of defaults.

Receivables are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognised in profit or loss.

The Group's credit risk exposure in relation to trade receivables under FRS 109 as at 31 December and 1 January 2018 are set out as follows:

	←————— Past due —————→				
	<u>Current</u>	<u>< 3 months</u>	<u>3 to 6 months</u>	<u>> 6 months</u>	<u>Total</u>
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2018					
Group					
Expected loss rate	0%	0%	0%	100%	
Trade receivables	39,370	1,286	16	1,042	41,714
Loss allowance	-	-	-	(1,040)	(1,040)

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(b) Credit risk (continued)

	← Past due →				Total
	Current	< 3 months	3 to 6 months	≥ 6 months	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
1 January 2018					
Group					
Expected loss rate	0%	0%	0%	74%	
Trade receivables	58,154	258	24	1,056	59,492
Loss allowance	-	-	-	(784)	(784)

Previous accounting policy for impairment of trade receivables

In 2017, the impairment of financial assets was assessed based on the incurred loss impairment model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet identified.

The Group considered that there was evidence if any of the following indicators were present:

- Significant financial difficulties of the debtor;
- Probability that the debtor will enter bankruptcy or financial reorganisation; and
- Default or delinquency in payments.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(b) Credit risk (continued)

The Group's credit risk exposure in relation to trade receivables under FRS 39 as at 31 December 2017 are set out in the provision matrix as follows:

	← Past due →			
	<u>< 3 months</u>	<u>3 to 6 months</u>	<u>> 6 months</u>	<u>Total</u>
	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2017				
Group				
Trade receivables				
Gross carrying amount:				
- Not past due	-	-	-	58,154
- Past due but not impaired	258	24	272	554
- Past due and impaired	-	-	784	784
	258	24	1,056	59,492
Less: Allowances for impairment				(784)
Net carrying amount				<u>58,708</u>

Financial assets that neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially with companies with a good collection track record with the Group.

Other than the above, there is no credit loss allowance for other financial assets at amortised costs as at 31 December 2017 and 1 January 2017.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining at all times sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities so as to enable the Group to meet its obligations as and when they fall due. At the balance sheet date, assets held by the Group and Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 12.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(c) Liquidity risk (continued)

Liquidity risk management covers daily, short term, and long term needs. The appropriate levels of liquidity are determined by both the nature of the Group's business and its risk profile. The Group monitors its liquidity position on a daily basis and prepares short term weekly cash flows of up to thirty weeks, on a monthly basis. In addition to this, the Group looks at cash flows on a medium term (< 12 months) and long term (> 12 months) basis through regular forecasts, annual budgets and long term business plans.

The table below analyses the maturity profile of the Group's and Company's financial liabilities, including derivative financial instruments into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year US\$'000
2018	
Group	
Trade and other payables	(87,315)
Derivative financial instruments	(1,462)
	(88,777)
Company	
Trade and other payables	(432)
2017	
Group	
Trade and other payables	(117,491)
Derivative financial instruments	(1,147)
Borrowings	(40,055)
	(158,693)
Company	
Trade and other payables	(891)
Borrowings	(40,055)
	(40,946)

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(d) Capital risk

The Group's objectives when managing capital are to maintain an optimal capital structure so as to maximise shareholder value and to safeguard the Group's ability to continue as a going concern. The capital structure of the Group consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained profits.

In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

The gearing ratio is calculated as net debt divided by the total book value of capital. Net debt is calculated as borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2017 and 2018.

	Group		Company	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Net debt	-	(9,209)	-	39,061
Total equity	645,837	559,155	371,933	369,503
Total capital	645,837	549,946	371,933	408,564
Gearing ratio	n.m.	-2%	n.m.	10%
	n.m. – not meaningful			

(e) Fair value measurement

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

- i. Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- ii. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(e) Fair value measurement (continued)

iii. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Group				
2018				
Assets				
Derivative financial instruments	-	8,933	-	8,933
Financial assets, at FVOCI	1,823	-	-	1,823
	1,823	8,933	-	10,756
Liabilities				
Derivative financial instruments	-	1,462	-	1,462
Group				
2017				
Assets				
Derivative financial instruments	-	756	-	756
Available-for-sale financial assets	5,392	-	-	5,392
	5,392	756	-	6,148
Liabilities				
Derivative financial instruments	-	1,147	-	1,147

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on the quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

33. Financial risk management (continued)

(e) Fair value measurement (continued)

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at balance sheet date. Quoted market prices and index-linked prices for similar instruments are used to estimate fair value. These investments are classified as Level 2. In infrequent circumstances, where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are classified as Level 3.

(f) Financial instruments by category

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet and in Note 17, Note 18 and Note 23 to the financial statements, except for the following:

	Group	Company
	2018	2018
	US\$'000	US\$'000
Financial assets, at amortised cost	207,468	306,743
Financial liabilities, at amortised cost	87,315	432
	Group	Company
	2017	2017
	US\$'000	US\$'000
Loans and receivables	132,535*	344,614
Financial liabilities, at amortised cost	157,491	40,891

* The prior year comparatives have been reclassified to conform to changes in presentation for the current year.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

34. Related party transactions

(a) Key management personnel compensation

	Group	
	2018	2017
	US\$'000	US\$'000
Salaries and other employee benefits	1,493	1,380
Directors' fees	366	334
	1,859	1,714

(b) Sales and purchases of goods and services

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

	Group	
	2018	2017
	US\$'000	US\$'000
Sales of coal to a related corporation	-	9,579
Loss on derivative contracts entered with a related corporation	1,133	56
Consultancy fees paid to a related corporation	1,720	823
Despatch received from a related corporation	13	15
Employee compensation paid to a related corporation	218	169
Employee compensation paid to ultimate holding corporation	804	522
Interest expense payable to a related corporation	907	3,470

Related corporations comprise mainly companies which are controlled or significantly influenced by the Group's ultimate holding company that are not part of the Group or companies which are controlled or significantly influenced by key management personnel and their close family members.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

35. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following significant subsidiaries in accordance with the accounting policy described in note 2(b):

Name of entity	Country of incorporation	Principal activity	Equity holding	
			2018	2017
			%	%
Tiger Energy Trading Pte Ltd (a)	Singapore	Trading	100	100
Sakari Energy Trading Pte Ltd (a)	Singapore	Investment holding	100	100
PT Bahari Cakrawala Sebuk (b)	Indonesia	Coal mining	100	100
PT Sinergy Consultancy Services (b)	Indonesia	Management services	100	100
PT Bumiborneo Pertiwi Nusantara (b)	Indonesia	Investment holding	100	100
PT Borneo Citrapertiwi Nusantara (b)	Indonesia	Investment holding	100	100
PT Separi Energy (b)	Indonesia	Investment holding	100	100
PT Jembayan Muarabara (b)	Indonesia	Coal mining	100	100
PT Kemilau Rindang Abadi (b)	Indonesia	Coal mining	100	100
PT Arzara Baraindo Energitama (b)	Indonesia	Coal mining	100	100
PT Karbon Mahakam (b)	Indonesia	Coal mining	100	100
PT Metalindo Bumi Raya (b)	Indonesia	Coal mining	100	100
PT Citra Pertiwi Nusantara (b)	Indonesia	Asset holding	100	100

(a) Audited by PricewaterhouseCoopers LLP, Singapore.

(b) Audited by KAP Tanudiredja, Wibisana, Rintis & Rekan - a member firm of the PricewaterhouseCoopers global network.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

36. Reconciliation of profit after income tax to net cash provided by operating activities

	Group	
	2018	2017
	US\$'000	US\$'000
Net profit after tax	90,108	89,107
Adjustments for:		
Income tax expense	68,711	10,509
Depreciation and amortisation	67,716	63,757
Foreign exchange loss - net	1,099	389
Gain on sale of property, plant and equipment	(28)	-
Write-off of property, plant and equipment	-	18,453
Fair value losses on derivative financial instruments	3,629	4,947
Interest expense	906	3,470
	232,141	190,632
<i>Changes in working capital</i>		
Decrease in trade and other receivables	22,932	12,520
Increase in inventories	(1,655)	(11,758)
Increase in other operating assets	(76,501)	(33,443)*
(Decrease)/Increase in trade and other payables and provisions	(29,153)	20,512
<i>Cash generated from operations</i>	147,764	178,463
Income tax paid	(83,344)	(44,420)
Income tax refunded	47,391	7,567
Net cash provided by operating activities	111,811	141,610

* The comparative figures have been restated to conform to the current financial year's presentation.

	2017 Reclassified US\$'000	2017 Previously reported US\$'000
<i>Changes in working capital</i>		
Increase in other operating assets	(33,443)	(3,948)
<i>Cash flows from investing activities</i>		
Additions to property, plant and equipment	(12,985)	(42,480)

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

37. Significant laws and regulations that may have an impact on the Group

(a) *Government Regulation No.78/2010*

On 20 December 2010, the Government of Indonesia released Government Regulation No. 78/2010 (“GR No. 78”) that deals with reclamation and post-mining activities for both IUP-Exploration and IUP-Production Operation holders.

IUP-Production Operation holders, among other requirements, must prepare (1) a 5-year reclamation plan; (2) a post-mining plan; (3) provide a reclamation guarantee which may be in the form of a joint account or time deposit placed at a state-owned bank, a bank guarantee, or an accounting provision (if eligible); and (4) provide a post-mine guarantee in the form of a time deposit at a state-owned bank.

On 28 February 2014, the Minister of Energy and Mineral Resources (“MEMR”) released Ministerial Regulation No. 7/2014 as implementing regulation on reclamation and post-mining activities for mineral and coal mining companies which further regulates the aspect of reclamation plan, consideration of future value from the post-mining costs and accounting reserve determination.

On 2 May 2018, the MEMR issued Ministerial Regulation No. 26/2018 on implementation of good governance in mining industry and supervision of minerals and coals. This regulation withdrew Ministerial Regulation No. 7/2014 and governs on environment management reclamation, post-mining activities and post-operation activities, including the requirement to provide reclamation and post-mine guarantees.

The requirement to provide reclamation and post-mine guarantees does not release the IUP holder from the requirement to perform reclamation and post-mine activities. As at 31 December 2018, the Group has deposited US\$19,413,894 (2017: US\$11,233,267) to the government for reclamation and mine closure bond.

(b) *Ministerial Regulation No. 28/2009*

On 30 September 2009, the MEMR issued Ministerial Regulation No. 28/2009 which, among others, sets strict criteria for mining companies to be able to assign its ‘Affiliates’ or ‘Subsidiaries’ as their mining contractor and requires the directorate general’s approval on behalf of the minister.

The regulation provides exceptions only when no other capable mining service companies operate in the area.

Management believes that this regulation has no significant impact to the Group’s operation.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

37. Significant laws and regulations that may have an impact on the Group (continued)

(c) *Ministerial Regulation No. 34/2009*

In December 2009, the MEMR issued Ministerial Regulation No. 34/2009, which provides a legal framework to require mining companies to sell a portion of their output to domestic customers (“Domestic Market Obligation” or “DMO”).

On 5 January 2018, the MEMR issued Ministerial Regulation No. 23K/30/MEM/2018, which provides a legal framework to require mining companies to sell 25% portion of their output to domestic customers (“Domestic Market Obligation” or “DMO”).

On 9 June 2018, the MEMR issued Ministerial Letter No. 2841/30/MEM.B/2018 to confirm the DMO requirement for 2018 to all CCoW and IUP holders which are in the production stage. The DMO quota for 2018 was set at 25% of the total annual production in which 80% of the DMO is for public electricity use. For those CCoW and IUP holders who fail to fulfil the requirement, their future production cap will be reduced from the 2018 production capacity as agreed on the predetermined annual budget (“RKAB”). DMO transfer quota mechanism between companies is allowed based on business agreement and must be reported on a monthly basis to the MEMR.

Management believes that the Group has complied with the requirements of the above mentioned regulations for 2018.

(d) *Government Regulation No. 24/2012*

Government Regulation (“GR”) No. 24/2012 which amends GR No. 23/2010 was signed by the President of the Republic of Indonesia on February 21, 2012. GR No. 24/2012 requires a gradual divestment scheme applicable for IUP and IUPK holders, such that in the tenth year from their production commissioning at least 51% of their shares shall be owned by Indonesian participant(s).

On 13 September 2013, the MEMR issued Ministerial Regulation No. 27/2013 on the Procedures and Determination of Divestment Price as well as Changes in Capital Investment in Mineral and Coal Mining Businesses. Based on this regulation, the provision which governs the changes in capital investment consists of (a) changes in investment and financing sources, (b) changes in company status from foreign investment to domestic investment or vice versa, (c) changes in Article of Association, (d) changes in the Board of Directors and Commissioners and (e) changes in shareholders composition.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

37. Significant laws and regulations that may have an impact on the Group (continued)

(d) *Government Regulation No. 24/2012 (continued)*

On 14 October 2014, GR No. 77/2014 was issued which sets out progressive divestment requirements for mining companies owning different types of mining permits.

On 11 January 2017, GR No. 1/2017 was issued which sets regulates the mechanism of extension IUP, and makes it mandatory for any coal sale (export and local) to refer the coal benchmark price, transfer of IUPs, divestments and mining areas.

Management is continuously monitoring the potential implications of the above regulations.

(e) *Ministerial Regulation No. 51/2018*

On 5 May 2017, the Government regulated MEMR's Ministerial Regulation No. 34/2017 in which one of the requirements is to prohibit IUP/IUPK holder to involve a subsidiary and/or an affiliate whose business is to support the mining activities without approval from the Directorate General on behalf of Minister. In accordance with this Ministerial Regulation, permits which were issued before this Ministerial Regulation was released will remain valid until the period expires.

On 21 February 2018, the MEMR issued Ministerial Regulation No. 11/2018 regarding procedures of administration, licensing and reporting the activity of coal mining and mineral to replace Ministerial Regulation No. 34/2017.

On 5 December 2018, the MEMR issued Ministerial Decision 51/2018 to amend Ministerial Regulation No. 11/2018 with regards to IUP/IUPK establishment planning, privatisation of state-owned enterprises and regional-owned enterprises and the prohibition of IUP/IUPK holders.

The Group has conducted all coal extraction activities to third party, including by hiring equipment. Management believes that the Ministerial Regulation No. 51/2018 does not alter the structure of the Group's operations substantially.

(f) *Ministerial Regulation No. 44/2017*

On 23 September 2010, the MEMR issued Ministerial Regulation No. 17/2010 on the Procedure for the Setting of Benchmark Prices for Mineral and Coal Sales, which stipulates that the sale of coal shall be conducted with reference to the benchmark price issued by the Government.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

37. Significant laws and regulations that may have an impact on the Group (continued)

(f) *Ministerial Regulation No. 44/2017 (continued)*

On 11 January 2017, the MEMR issued Ministerial Regulation No 7/2017, regarding the Procedure for the Setting of Benchmark Prices for Mineral and Coal Sales, to replace Ministerial Regulation No. 17/2010. Any provision on Ministerial Regulation No. 17/2010, relating to benchmark prices for metal mineral and coal sales is revoked since that date.

On 18 July 2017, the MEMR issued Ministerial Regulation No. 44/2017 regarding amendment of Procedures for Determining the Benchmark Sales of Metal and Coal.

The Group is required to comply with the benchmark price for purposes of calculating monthly royalty payment. Management believes that the Group has complied with the regulation and does not include cost adjustments in its HPB calculation.

(g) *Ministerial Regulation No. 48/2017*

On 3 August 2017, the MEMR withdrew Ministerial Regulation No. 42/2017 and issued Ministerial Regulation No. 48/2017 regarding the Control of Enterprises in the Energy and Mineral Resources Sector (“Ministerial Regulation No. 48/2017”). This regulation governs the transfer of shares and changes in the Directors and/or Commissioners.

Management believes that the Group has complied with the requirements of the regulations mentioned above.

(h) *Ministerial Regulation No. 1395K/30/MEM/2018*

On 9 March 2018, the MEMR withdrew Ministerial Decision No. 0617K/32/MEM/2011 and issued Ministerial Regulation No. 1395K/30/MEM/2018 regarding the sales price of coal for public use. The price is capped at US\$70/MT Free on Board Vessel for coal with benchmark specifications of 6,322 kcal/kg GAR, total moisture of 8%, total sulphur of 0.8% and ash of 15%. The price for all other types of coal is calculated using a specific formula.

On 12 March 2018, the MEMR issued Ministerial Decision No. 1410K/30/MEM/2018 regarding an amendment to Ministerial Decision No. 1395K/30/MEM/2018. The effective date of the regulation will be from 12 March 2018 to 31 December 2019 with a maximum quantity of 100 million MT of coal per year.

Management is continuously monitoring the potential implications of the above regulations.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

37. Significant laws and regulations that may have an impact on the Group (continued)

(i) *Ministerial Decision No. 1952K/84/MEM/2018*

On 5 September 2018, the MEMR issued Ministerial Decision No. 1952K/84/MEM/2018 to IUP/IUPK holders that requires the use of Letter of Credit and to repatriate proceeds from sales of minerals and coal to abroad through an account at a domestic bank or a foreign branch of an Indonesian bank. If this obligation is not implemented, the Directorate General can revoke the recommendation for approval for export of minerals and to recommend revocation of status as registered exporter of coal.

Management believes that the Group has complied with the requirements of the regulation mentioned above.

(j) *Ministerial Decision No. 1953K/06/MEM/2018*

On 8 September 2018, the MEMR issued Ministerial Decision No. 1953K/06/MEM/2018 that obliges business entities that operate in the fields of oil and gas, minerals and coal, electric power and new/renewable energy and energy conservation to use operational goods, capital goods, raw material, equipment and other supporting materials that are produced domestically, insofar as such goods fulfil quality or specifications, delivery time and price.

Management believes that the Group has complied with the requirements of the regulation mentioned above.

(k) *Ministerial Regulation No. 43/2018*

On 25 September 2018, the MEMR issued Ministerial Decision No. 43/2018 to amend Ministerial Regulation No. 09/2017. The key amendments under the new regulation are:

- Divestment of 51% of shares can now be performed through issuance of new shares, transfer or sales of existing shares, directly or indirectly;
- If the Government or Local Government do not acquire the stock divestment, companies are obliged to offer share divestment to state/regional government owned enterprises (“BUMN/BUMD”) and if there are more than one BUMN/BUMD who take up the offer, the Minister will coordinate the composition of the stock divestment;
- IUPK holders need to give access to Indonesian participant to perform due diligence; and
- The price of the stock divestment will be calculated based on market value, which excludes mineral and coal reserves, using discounted cash flow and market data benchmarking.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

37. Significant laws and regulations that may have an impact on the Group (continued)

(k) Ministerial Regulation No. 43/2018 (continued)

Management is continuously monitoring the potential implications of the above regulations.

38. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2019 and which the Group has not early adopted:

(a) FRS 116 *Leases* (effective for annual periods beginning on or after 1 January 2019)

FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not change significantly.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at 31 December 2018, the Group has non-cancellable operating lease commitments of US\$3,386,000 (Note 32). Of these commitments, approximately US\$1,566,000 relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss and US\$1,511,000 relate to a lease which was committed as at 31 December 2018 but will commence after 31 December 2018.

The Group is in the process of assessing the full impact on the adoption of FRS 116.

NOTES TO THE FINANCIAL STATEMENT

For the financial year ended 31 December 2018

38. New or revised accounting standards and interpretations (continued)

- (b) INT FRS 123 *Uncertainty Over Income Tax Treatments* (effective for annual periods beginning on or after 1 January 2019)

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- i) how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;
- ii) that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored
- iii) that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- iv) that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- v) that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The Group is in the process of assessing the full impact on the adoption of INT FRS 123.

39. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Sakari Resources Limited on 8 February 2019.

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GLOSSARY

The following definitions apply throughout this Annual Report:

“ASP”	Average selling price
“Board”	The Board of Directors of Sakari
“CEO”	Chief Executive Officer
“Sakari”, “Company”	Sakari Resources Limited
“Group”	Sakari and its subsidiaries
“ha”	Hectares
“Mt”	Millions of metric tonnes
“pa”	per year
“PTT”	PTT Public Company Limited, Sakari’s ultimate holding company
“t”	One metric tonne
“Kt”	Thousands of metric tonnes
“\$”, “US\$”	United States dollars
“CY”	Calendar year

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NOTICE OF ANNUAL GENERAL MEETING

SAKARI RESOURCES LIMITED

(Company Registration Number: 199504024R)

(Incorporated in the Republic of Singapore)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **SAKARI RESOURCES LIMITED** (“**the Company**”) will be held at the Marie I and II, York Hotel, 21 Mount Elizabeth, Singapore 228516 on Friday, 21 June 2019 at 2.00 p.m. for the following purposes:

AS ORDINARY BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

1. To receive and adopt the Directors’ Statement and the Audited Financial Statements of the Company for the year ended 31 December 2018 together with the Auditors’ Report thereon. **(Resolution 1)**
2. To declare a final dividend of 0.79 US cents per share (equivalent to approximately Singapore 1.07 cents per share), tax exempt for the year ended 31 December 2018.
[See Explanatory Note (i)] **(Resolution 2)**
3. To re-elect the following Director retiring pursuant to Articles 94 of the Company’s Constitution:
Mrs Rosaya Teinwan [Retiring under Article 94] **(Resolution 3)**
4. To approve the appointment of Mr Jaturong Worawitsurawatthana as a Director of the Company with effect from the date of the Annual General Meeting. **(Resolution 4)**
5. To note the retirement of Mr Surong Bulakul, who is retiring pursuant to Article 94 of the Constitution of the Company and is not seeking for re-election.
6. To approve the payment of directors’ fees of up to S\$517,000 payable by the Company for the year ending 31 December 2019. **(Resolution 5)**

NOTICE OF ANNUAL GENERAL MEETING

7. To re-appoint PricewaterhouseCoopers LLP as the Company's Auditors to hold office until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.

(Resolution 6)

8. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

By Order of the Board

Seow Han Chiang Winston
Company Secretary
Singapore
3 June 2019

Explanatory Note:

- i. Subject to approval of Resolution 2 by shareholders, NOTICE IS HEREBY GIVEN that the Share Transfer Book and Register of Members of Sakari Resources Limited will be closed on 25 June 2019 for the purpose of determining shareholders' entitlements to the final dividend of 0.79 US cents per share. Duly completed registrable transfers received by the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte Ltd, 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 up to 5.00 p.m. on 24 June 2019 will be registered to determine shareholder's entitlements to the said final dividend of 0.79 US cents per share to be paid on 5 July 2019.

Notes:

1. A Member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint one (1) or two (2) proxies to attend and vote in his/her stead. A proxy need not be a Member of the Company.
2. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 391B Orchard Road, Ngee Ann City Tower B #17-01, Singapore 238874 not less than 48 hours before the time appointed for holding the Meeting.

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