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8 January 2021

ASX Release:

HKEx Voluntary announcement regarding reconsolidation of Watagan Mining

Authorised for lodgement by the Yancoal Disclosure Committee

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Yancoal Australia Ltd
ACN 111 859 119

兗煤澳大利亞有限公司*

(Incorporated in Victoria, Australia with limited liability)

(Hong Kong stock code: 3668)

(Australian Stock Code: YAL)

**VOLUNTARY ANNOUNCEMENT REGARDING
RECONSOLIDATION OF WATAGAN MINING COMPANY PTY LTD**

Reference is made to the announcement issued by Yancoal Australia Ltd (the “**Company**”) on 16 December 2020 in relation to the reconsolidation of Watagan Mining Company Pty Ltd (“**Watagan**”). On the same date, Yanzhou Coal Mining Company Limited (“**Yanzhou**”), the controlling shareholder of the Company, issued an announcement in relation to the same subject matter on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively.

The Company was notified by Yanzhou that it has issued a further announcement on 8 January 2021 in response to a letter from the Shanghai Stock Exchange regarding the reconsolidation of Watagan. A copy of the announcement published by Yanzhou is attached for the information of shareholders and investors.

By order of the Board
Yancoal Australia Ltd
Baocai ZHANG
Chairman

Hong Kong, 8 January 2021

As of the date of this announcement, the executive Director is Mr. Ning Zhang, the non-executive Directors are Mr. Baocai Zhang, Mr. Cunliang Lai, Mr. Xiangqian Wu, Mr. Qingchun Zhao and Mr. Xing Feng and the independent non-executive Directors are Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies.

**For identification purposes only*

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兗州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1171)

OVERSEAS REGULATORY ANNOUNCEMENT

REPLIES TO THE REGULATORY LETTER FROM THE SHANGHAI STOCK EXCHANGE

On 16 December 2020, Yanzhou Coal Mining Company Limited (the "**Company**") published the announcement on the change of consolidation scope of an overseas company (No. 2020-077) and announced the re-consolidation of the financial statements of Watagan Mining Company Pty Ltd ("**Watagan**") into Yancoal Australia Limited ("**Yancoal Australia**"), due to the exercise of put options by the holders of the overseas bonds issued by Watagan (the "**Watagan Bonds**"). Regarding the Regulatory Letter in relation to the change of consolidation scope of an overseas controlled subsidiary of Yanzhou Coal Mining Company Limited (the "**Regulatory Letter**") issued by the Shanghai Stock Exchange, the Company conducted review and verification carefully, and has submitted written replies to the questions set out in the Regulatory Letter to the Shanghai Stock Exchange. The relevant replies are set out as follows:

I. The Company has implemented internal decision-making process and made information disclosure in relation to the previous deconsolidation of Watagan

The Company has implemented internal decision-making process and made timely disclosure in relation to the overseas issuance of the Watagan Bonds by Watagan, a subsidiary of Yancoal Australia, details of which are set out as follows:

On 22 May 2015 and 17 June 2016, the Company convened its 2014 annual general meeting and the 16th meeting of the sixth session of the board of directors respectively, in which the proposals in relation to the authorization to the Company to conduct domestic and overseas financing activities and the approval of Yancoal Australia to carry out bond financing activities were considered and approved.

As approved by the board of Yancoal Australia, on 17 February 2016, Watagan, three Bondholders and relevant parties entered into relevant agreements including the Bonds Subscription Agreement and the Put Option Agreement. Pursuant to the Bonds Subscription Agreement and the Put Option Agreement, on 31 March 2016, Watagan, the Bondholders and relevant parties completed the issue of bonds and financing closing. For matters illustrated above, the Company issued voluntary announcements on the Hong Kong Stock Exchange on 17 February 2016 and 1 April 2016, respectively, and made information disclosure on the Shanghai Stock Exchange by issuing the same. For details, please refer to the H share announcement of the Company dated 17 February 2016 and 1 April 2016.

II. The previous deconsolidation of Watagan in 2016 was in accordance with the relevant accounting standards

Although Yancoal Australia holds 100% of equity interests in Watagan, its decision-making of its relevant activities were held by its board. The Bondholders, by appointing the majority of the directors, controlled the board of Watagan and its relevant activities.

Watagan was established for the special purpose of financing. During the terms of Watagan Bonds, the Bondholders were entitled to variable returns.

Yankuang Group provided put option or guarantee to the major debts of Watagan. Yancoal Australia was not the party assuming the major risks of the operation of Watagan.

To sum up, as Yancoal Australia did not have control over Watagan or have influence on variable returns through control, it did not satisfy the requirements of control set out in *No.33 of Enterprise Accounting Standards-Consolidation*. Therefore, after the completion of the issue of the Watagan Bonds (i.e. after 31 March 2016), Watagan was deconsolidated from Yancoal Australia.

Analysis from the auditors:

1. The auditors have reviewed the relevant decision-making procedure documents, board resolutions and other relevant announcements on Watagan-related matters, as well as the periodic financial reports of the relevant period, reviewed the relevant decision-making procedure documents, board resolutions and related announcements of Yancoal Australia, re-checked the relevant work of the accountants of Yancoal Australia, and believe that the Company and its subsidiary Yancoal Australia have fulfilled the decision-making procedures of the above-mentioned decision-making matters and disclosed the relevant information.

2. The auditors have reviewed the relevant agreements and other documents, re-checked the judgment of the Company's termination of the accounting treatment of the consolidated Watagan financial statements on 31 March 2016, reviewed the audit findings of the accountants of Yancoal Australia, and believe that, in accordance with the articles of association of Watagan and the Bonds Subscription Agreement, the voting power is the determining factor to decide the controller of Watagan. After Watagan completed the issuance of the relevant bonds on 31 March 2016 and restructured its board of directors, Yancoal Australia lost its control to the board of directors of Watagan and was unable to control Watagan's related activities and influence significant variable returns through such control. As a result, the Company's termination of consolidating Watagan's financial statements since 31 March 2016 was in accordance with the *No.33 of Enterprise Accounting Standards-Consolidation*.

III. The re-consolidation of the financial statements of Watagan is in accordance with the relevant accounting standards

On 4 January 2019, BOC International (one of the bondholders of the Watagan Bonds) notified Watagan and Yankuang Group to exercise its put option for \$200 million of the Watagan Bonds.

On 16 December 2020, Yankuang Group, Yancoal Australia, Watagan and the bondholders entered into the Supplementary Agreement on Bonds Subscription Agreement, Supplementary Agreement on the Put Option Agreement and other agreements, agreed that the two remaining bondholders after, the entering into of the above-mentioned agreements, to exercise put options, Yankuang Group or its designated entity to repurchase the \$575 million of Watagan bonds and to become the sole holder of the Watagan Bonds after the settlement of such repurchase;

Pursuant to Article 13.6 of the Bonds Subscription Agreement, Yankuang shall automatically lose its right to appoint director of as the bondholder if it becomes the sole holder of the Watagan Bonds as a result of the exercise of the put options. Meanwhile, in accordance with the Supplementary Agreement on Bonds Subscription Agreement, Supplementary Agreement on the Put Option Agreement, the directors of Watagan appointed by the bondholders will resign from the date on which the bondholders exercise the put option, and Yancoal Australia regains the right to appoint one or more directors. In the meantime, under the aforementioned agreement, Yankuang Group, as the holder of Watagan Bonds, was unable to appoint directors and Yancoal Australia thus regained control of the board of directors of Watagan.

To sum up, Yancoal Australia has regained control over the board of directors of Watagan and thus control of the aforementioned board decision-making matters of Watagan, in the circumstances of the agreement of the put option of the original bondholders and the resignation of the directors it appointed. Accordingly, Yancoal Australia has regained control over the board of directors of Watagan, is entitled to variable returns, and has influence on variable

returns through control. This satisfies the relevant definitions of control under *No.33 of Enterprise Accounting Standards-Consolidation*, and thus since 16 December 2020, Yancoal Australia has re-consolidated Watagan into its consolidated financial statements.

Analysis from the auditors:

The auditors have reviewed the relevant agreements and other documents, re-checked the basis of the company's re-incorporation of the financial statements of Watagan on 16 December 2020, and discussed with the auditors of Yancoal Australia. It is believed that Yancoal Australia has regained control over the board of directors of Watagan and control over the aforementioned board decision-making matters of Watagan, is entitled to variable returns, and has influence on variable returns through control in the circumstances of the exercise of the put option of the original bondholders and the resignation of the directors it appointed, and thus, since 16 December 2020, the re-consolidation of Watagan into the consolidated financial statements of Yancoal Australia satisfies the relevant definitions of control under *No.33 of Enterprise Accounting Standards-Consolidation*.

IV. Information in relation to the losses of Watagan in the early stage

During the period since 31 March 2016 when Watagan was included in Yancoal Australia's consolidated statements as an affiliated enterprise through the equity method till December 2020 when Watagan was re-consolidated into Yancoal Australia, it is estimated that the unaudited accumulated loss of Watagan were approximately A\$1.3 to 1.5 billion, due to the comprehensive impact of factors including, among others, the provision for the devaluation of assets, the annual operational loss of the previous years (including the financial cost) and the exchange loss. Thus, the one-time non-cash loss of Yancoal Australia for the year 2020, as the impact of the reconsolidation of Watagan's financial statements, is estimated to be approximately A\$1.3 to 1.5 billion, based on the premise of the fair value measurement.

V. Opinions of the independent non-executive directors of the Company

The independent non-executive directors of the Company are of the view that the Company has previously fulfilled the decision-making procedures and made information disclosure regarding the issuance of US\$775 million overseas bonds by Watagan; that the termination and re-consolidation of Watagan's financial statements by Yancoal Australia were in accordance with the relevant accounting standards; and that the reasons for the one-time non-cash loss of approximately A\$1.3-1.5 billion in 2020 due to the re-consolidation of Watagan by Yancoal Australia are in line with the actual situation. The independent non-executive directors give consent to the company's replies to the regulatory letter from the Shanghai Stock Exchange.

Yanzhou Coal Mining Company Limited
Li Xiyong
Chairman

Zoucheng, Shandong Province, the PRC
8 January 2021

As at the date of this announcement, the directors of the Company are Mr. Li Xiyong, Mr. Wu Xiangqian, Mr. Liu Jian, Mr. Zhao Qingchun, Mr. He Jing and Mr. Wang Ruolin, and the independent non-executive directors of the Company are Mr. Tian Hui, Mr. Zhu Limin, Mr. Cai Chang and Mr. Poon Chiu Kwok.