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HKEX - Continuing Connected Transactions

Authorised for lodgement by the Board of Yancoal Australia

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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)

CONTINUING CONNECTED TRANSACTIONS

Reference is made to (i) the continuing connected transactions entered into by the Company and disclosed in the Connected Transactions section of the prospectus issued by the Company on 26 November 2018 (the “**Prospectus**”) and (ii) the announcement of the Company dated 17 December 2020 (the “**Announcement**”) pursuant to which the Board resolved to renew the agreements and/or approve the annual caps (as the case may be) for the continuing connected transactions for the three years ending 31 December 2023.

As the Company expects to continue to carry on the relevant continuing connected transactions after the end of 2023, on 12 December 2023, the Board resolved to renew the relevant agreements and/or approve the annual caps (as the case may be) for the continuing connected transactions as set out in this announcement. Yankuang Energy, the Company’s controlling shareholder has confirmed on 22 December 2023 that its internal governance processes in relation to these continuing connected transactions (to the extent applicable) have now been completed.

A. INTRODUCTION

On 12 December 2023, the Board resolved to renew the agreements and/or approve the annual caps (as the case may be) for the following continuing connected transactions:

- (1) the purchase of coal by the Group from Yankuang Energy Group pursuant to the Yankuang Energy Framework Coal Purchase Agreement;
- (2) the purchase of coal by the Group from POSCO, a connected person at the Company’s subsidiary level, pursuant to the MT Sales Agreement in relation to Mount Thorley mining operations only; and

**For identification purposes only*

- (3) the provision of management services by the Group to the Recipients, which are subsidiaries of Shandong Energy, pursuant to the Management and Transitional Services Agreement.

Yankuang Energy, the Company's controlling shareholder, has confirmed on 22 December 2023 that its internal governance processes in relation to these continuing connected transactions (to the extent applicable) have now been completed.

B. MATERIAL TERMS OF THE CONTINUING CONNECTED TRANSACTIONS

(1) Purchase of Coal by the Group from Yankuang Energy Group pursuant to the Yankuang Energy Framework Coal Purchase Agreement

The Company entered into a framework coal purchase agreement with Yankuang Energy (the "**Yankuang Energy Framework Coal Purchase Agreement**") on 8 October 2018 to govern all existing and future purchase of coal by the Group from Yankuang Energy Group. As disclosed in the Announcement, the Yankuang Energy Framework Coal Purchase Agreement was renewed for a period of three years commencing from 1 January 2021 and ending 31 December 2023.

The Yankuang Energy Framework Coal Purchase Agreement will expire on 31 December 2023 and will be automatically renewable for successive periods of three years thereafter, subject to compliance with the applicable provisions of the Listing Rules and unless terminated earlier by not less than three months' prior notice or otherwise in accordance with the terms of the Yankuang Energy Framework Coal Purchase Agreement.

On 12 December 2023, the Board resolved to renew the Yankuang Energy Framework Coal Purchase Agreement for a further three years commencing from 1 January 2024 and to set the annual caps for the three years ending 31 December 2026 for the transactions thereunder. Yankuang Energy has confirmed on 22 December 2023 that its internal governance processes in relation to this continuing connected transaction (to the extent applicable) have now been completed.

Subject Matter

The Yankuang Energy Framework Coal Purchase Agreement provides that all transactions in relation to the purchase of coal by the Group from Yankuang Energy Group must be (i) in the ordinary and usual course of business of the Group, (ii) on an arm's length basis, (iii) on normal commercial terms and (iv) in compliance with, amongst other things, the Listing Rules and applicable laws.

Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference to the prevailing market price for the relevant type of coal, taking into account (i) the industry index prices, typically being McCloskey API 5 Index ("**API5**"), (ii) coal quality characteristics and (iii) market alternatives to optimise value for the Company.

Historical Amounts and Annual Caps

The aggregate annual transaction amounts paid by the Group to Yankuang Energy Group for the two years ended 31 December 2021, 2022 and the nine months ended 30 September 2023 were US\$7.6 million, nil and US\$6.2 million, respectively. The historical transaction amounts were lower than the existing annual caps due to the restrictions placed on China's imports of coal sourced from Australia from late 2020 to early 2023.

The maximum annual transaction amount to be paid by the Group to Yankuang Energy Group for the three years ending 31 December 2024, 2025 and 2026 will not exceed US\$45 million, US\$45 million and US\$45 million, respectively.

The annual caps were determined primarily with reference to (i) the expected spot demand for coal from Yankuang Energy Group for back-to-back on-sale of such coal by the Group to its end customers over the next three years and (ii) the estimated increase in the sale price for the coal.

Reasons for, and benefits of, the Yankuang Energy Framework Coal Purchase Agreement

The Group has purchased, and expects to continue to purchase, coal from Yankuang Energy Group, in particular Australian based subsidiaries of Yankuang Energy holding mines which are managed by the Group, for back-to-back on-sale to end customers. Considering that the purpose of such purchase is to fulfil customer requirements and maintain customer relationships and the coal will be purchased at market price, the Company believes the transactions under the Yankuang Energy Framework Coal Purchase Agreement are in the best interest of the Company and its shareholders as a whole.

Listing Rules Implications

As at the date of this announcement, Yankuang Energy is a controlling shareholder of the Company, holding approximately 62.26% of the total issued shares of the Company. Accordingly, Yankuang Energy is a connected person of the Company and the transactions contemplated under the Yankuang Energy Framework Coal Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of each of the caps is, on an annual basis, more than 0.1% but less than 5%, such continuing connected transaction will be subject to the reporting, announcement and annual review requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(2) Purchase of Coal by the Group from POSCO pursuant to the MT Sales Agreement in relation to Mount Thorley Mining Operations only

The participants of the unincorporated joint venture in relation to Mount Thorley operations (the "**MT JV**") namely, POSCO Australia Pty Ltd (previously known as Pohang Steel Australia Pty Ltd) ("**POSCO**") and Mount Thorley Operations Pty Ltd (previously known as R. W. Miller & Co. Pty Ltd) ("**MT Operations**"), a wholly-owned subsidiary of the Company holding the relevant mining and exploration licences of Mount Thorley on behalf of the MT JV, entered into a sales contract with Miller Pohang Coal Co. Pty Ltd (the "**MT SalesCo**") on 10 November 1981 (the "**MT Sales Agreement**"). The MT Sales Agreement will last during the economic life of the Mount Thorley coal mine.

On 12 December 2023, the Board resolved to set the annual caps for the three years ending 31 December 2026 for the transactions under the MT Sales Agreement. Yankuang Energy has confirmed on 22 December 2023 that its internal governance processes in relation to this continuing connected transaction (to the extent applicable) have now been completed. The existing terms of the MT Sales Agreement remain unchanged.

Subject Matter and Basis of Consideration

Pursuant to the MT Sales Agreement: (i) each of POSCO and MT Operations agrees to sell all of its entitled portion of finished coal product in saleable form that is produced by the tenements held by the MT JV to the MT SalesCo only and the MT SalesCo agrees to purchase each of POSCO's and MT Operations' entitled portion of coal product; (ii) the amount payable to each of POSCO and MT Operations shall be the total amount received by the MT SalesCo for that portion of product under each sales contract entered into between the MT SalesCo and its customers; and (iii) payment by the MT SalesCo to POSCO and MT Operations shall be no later than 7 days after receipt by the MT SalesCo of payment from its customers.

Historical Amounts and Annual Caps

The aggregate annual transaction amount distributed by the MT SalesCo to POSCO for the two years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023 were approximately US\$84.1 million, US\$172.2 million and US\$95.5 million, respectively.

The maximum annual transaction amount to be distributed by the MT SalesCo to POSCO for the three years ending 31 December 2024, 2025 and 2026 will not exceed US\$107 million, US\$100 million and US\$85 million, respectively.

The estimated maximum annual transaction amounts are determined mainly based on the current expected amount and price of the coal to be sold by the MT SalesCo, with reference to the historical transaction amount and the annual production capacity of Mount Thorley.

Reasons for, and Benefits of, the MT Sales Agreement

The reason for entering into the MT Sales Agreement and the business objective of the MT SalesCo are to facilitate the sale of coal produced by the MT JV, given the MT JV, which is an unincorporated joint venture, does not have the legal capacity to enter into sales agreements itself. The arrangement under the MT Sales Agreement is to make the coal attributable to the relevant participants available to the MT SalesCo for its on-sale and MT SalesCo distributes all amounts received by it from the sales of coal to the participants. Accordingly, MT SalesCo is not operated for profit as it does not retain any sales revenue received by it and does not receive any fees from the participants for the sales function carried out by it. Considering the above, the Company considers that the transactions under the MT Sales Agreement are in the best interest of the Company and its shareholders as a whole.

Listing Rules Implications

As at the date of this announcement, MT SalesCo is a company jointly controlled by MT Operations and POSCO with MT Operations and POSCO holding 80% and 20% of its interest, respectively. Both the MT SalesCo and the MT JV are subsidiaries of the Company under the Listing Rules. As POSCO holds more than 10% of the interest in the MT SalesCo and has more than 10% participating interest in the MT JV, POSCO will be a connected person of the Company by virtue of being a substantial shareholder of the subsidiaries of the Company. Accordingly, the transaction between the MT SalesCo and POSCO constitutes a continuing connected transaction of the Company under the Listing Rules.

As the continuing connected transaction under the MT Sales Agreement is between the Group and a connected person at the subsidiary level, on normal commercial terms or better, the Directors have approved the transaction and the independent non-executive Directors have given the confirmation required under Rule 14A.101 of the Listing Rules, the continuing connected transaction is only subject to reporting, announcement and annual review

requirements, but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

(3) Provision of Management Services by the Group to the Recipients pursuant to the Management and Transitional Services Agreement

As disclosed in the Prospectus, as one of the conditions imposed by the Foreign Investment Review Board of the Australian Government in relation to the merger of the Company with Gloucester Coal Ltd in 2012, the Management and Transitional Services Agreement was entered into between the Company and the Existing Recipients (as amended by the deed of variation, accession and termination agreement entered into between 7 December 2016 between the Company and the Recipients), pursuant to which the Company has agreed to provide to the Recipients the services in respect of the assets owned by the Recipients. The Management and Transitional Services Agreement shall continue in force and effect until the services thereunder are terminated in accordance with the terms of the Management and Transitional Services Agreement.

On 12 December 2023, the Board resolved to set the annual cap for the year ending 31 December 2024 for the transactions under the Management and Transitional Services Agreement. Yankuang Energy has confirmed on 22 December 2023 that its internal governance processes in relation to this continuing connected transaction (to the extent applicable) have now been completed. The existing terms of the Management and Transitional Services Agreement remain unchanged. The Management and Transitional Services Agreement will expire on 31 December 2024.

Subject Matter

The services provided to each Recipient and each of their respective subsidiaries include (i) general corporate services, which comprise HR services, treasury services, financial accounting/reporting services, compliance services, marketing and logistic services, corporate communications services, government and industry relations services, business development services and other general corporate services, (ii) operations services, which comprise carrying out exploration programs, preparing business plans, monitoring and reporting on environmental issues, using all reasonable endeavours to meet business KPIs, preparing plans of operations as may be required by laws and other operational services and (iii) IT services, which comprise the granting of the permission to use the Company's hardware or software and the provision of IT support services (the "**Services**").

Basis of Consideration

The Services charges for provisions of the Services will be at cost plus a 5% margin, except for any third party charges attributable to the provision of the relevant services which will be charged at cost. The cost base upon which the 5% margin is to be applied is to be determined on the basis of management's reasonable estimate of such costs at the commencement of each calendar year having regard to certain principles, including (i) in respect of coal-mining operations, the total budgeted corporate administration costs of the Company and the budgeted proportion of overall product tonnes of the relevant mining operation, (ii) in respect of non-coal mining businesses, the estimated management hours and the hourly rate for such work and (iii) in respect of disbursement, full recovery of any hard disbursements incurred by the Company.

At the end of each financial year (or such other times as the parties may agree), the parties will undertake a reconciliation of the fees charged during that financial year against the actual cost and services provided. The Company will refund the excess charges or the Recipients will pay the shortfall charges to the Company, in each case, within 14 days of determination

of the fee adjustment required. The Company will invoice the Recipients quarterly in arrears for services provided and the Recipients must pay to the Company within 30 days after the receipt of the invoice.

Historical Amounts and Annual Cap

The aggregate services fees charged by the Group from the Recipients for the two years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023 were approximately A\$8.6 million, A\$11.7 million and A\$13.5 million, respectively.

The annual transaction amount to be charged by the Group from the Recipients for the year ending 31 December 2024 will not exceed A\$20 million.

The above annual cap was calculated by reference to (i) the historical transaction amounts, (ii) the expected increase in the administration costs and hourly rates which are consistent with the expected increase in market rates and (iii) the expected demand for services by the Recipients over the year 2024.

Reasons for, and Benefits of, the Management and Transitional Services Agreement

Considering (i) the reason for entering into the Management and Transitional Services Agreement, which was a condition imposed by the Foreign Investment Review Board of the Australian Government in relation to the strategic merger with Gloucester Coal Ltd by the Company, following the completion of which, the shares of the Company began to trade on the ASX, (ii) the types of services to be provided and (iii) the fees to be charged by the Company, the Company considers the provision of the Services is in the best interest of the Company and its shareholders as a whole.

Listing Rules Implications

As at the date of this announcement, (i) Yankuang Energy is a controlling shareholder of the Company, holding approximately 62.26% of the total issued shares of the Company, (ii) Shandong Energy is the controlling company of Yankuang Energy, holding approximately 54.69% of the total share capital of Yankuang Energy, and (iii) the Recipients (other than Yankuang Energy) are indirectly subsidiaries of Shandong Energy. Accordingly, the Recipients are connected persons of the Company by virtue of being a substantial shareholder of the Company or associates of the Company's connected person, and the transactions contemplated under the Management and Transitional Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of each of the caps is, on an annual basis, more than 0.1% but less than 5%, such continuing connected transaction will be subject to the reporting, announcement and annual review requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

C. DIRECTORS' CONFIRMATION

The Directors (including the independent non-executive Directors) are of the view that the terms of continuing connected transaction agreements as set out in this announcement (including the relevant annual caps thereunder) are fair and reasonable. The transactions under the continuing connected transaction agreements as set out in this announcement are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

With respect to the transactions under the Yankuang Energy Framework Coal Purchase Agreement and the Management and Transitional Services Agreement, Mr. Gang Ru, Mr. Yaomeng Xiao, Mr. Xiaolong Huang and Mr. Ning Yue have declared that they hold certain positions in Yankuang Energy or Shandong Energy. However, the articles of association of the Company does not preclude such Directors from voting. Accordingly, none of the Directors abstained from voting on the relevant resolutions of the Board approving the transactions under the continuing connected transaction agreements as set out in this announcement (including the relevant annual caps thereunder).

D. INFORMATION IN RELATION TO THE COMPANY, YANKUANG ENERGY AND POSCO

(i) The Company

The Company's principal business activity is the production of thermal and metallurgical coal for use in the power generation and steel industries in Asian markets. The shares of the Company have been listed on the Australian Securities Exchange and the Hong Kong Stock Exchange since 2012 and 2018, respectively.

(ii) Yankuang Energy

Yankuang Energy is principally engaged in the business of mining, high-end chemicals and new materials, new energy, high-end equipment manufacturing, and intelligent logistics. Yankuang Energy's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production, prime quality low sulphur coal for use in pulverized coal injection and chemical products methanol, acetic acid etc. The H Shares and A Shares of Yankuang Energy are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively. Shandong Energy is the controlling shareholder of Yankuang Energy.

(iii) POSCO

POSCO was launched on 1 April 1968 with the national mission of industrialisation. The shares of POSCO are listed on the Korean Exchange. As the first integrated steel mill in Korea, it has grown to produce 41 million tons of crude steel a year, and it is conducting various global businesses, e.g. production and sales in 53 countries in the world.

E. DEFINITIONS

“Board”	the board of Directors
“Company”	Yancoal Australia Ltd, a company incorporated under the laws of Australia with limited liability, whose shares are listed on the ASX and the Hong Kong Stock Exchange
“Director”	a director of the Company
“Group”	the Company and its subsidiaries
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time

“Recipients”	(i) Yankuang Energy, (ii) Yancoal Technology Development Holdings Pty Ltd, (iii) Premier Coal Holdings Pty Ltd, (iv) Athena Holdings Pty Ltd, (v) Tonford Holdings Pty Ltd, (vi) Wilpeena Holdings Pty Ltd, (vii) Yancoal Energy Pty Limited, (viii) Yankuang Resources Pty Ltd and (iv) Yankuang (Australia) Metal Mining Pty Ltd
“Shareholders”	the shareholders of the Company
“Shandong Energy”	Shandong Energy Group Company Limited* (山東能源集團有限公司), a company with limited liability reformed and established under the laws of the PRC on 12 March 1996, the controlling shareholder of Yankuang Energy and the ultimate controlling shareholder of the Company
“Yankuang Energy”	Yankuang Energy Group Co. Limited* (兗礦能源集團股份有限公司), a joint stock company established in the PRC with limited liability, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
“Yankuang Energy Group”	Yankuang Energy and its subsidiaries (excluding the Yancoal Group)

By order of the Board

Yancoal Australia Ltd

Gang RU

Chairman

Hong Kong, 22 December 2023

As of the date of this announcement, the executive Director is Mr. Ning Yue, the non-executive Directors are Mr. Gang Ru, Mr. Yaomeng Xiao, Mr. Xiaolong Huang and Mr. Changyi Zhang and the independent non-executive Directors are Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies.