

# Entitlement Offer booklet

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Yancoal Australia Ltd ABN 82 111 859 119

Details of a 23.6 for 1 renounceable Entitlement Offer of New Shares at a price of US\$0.10 per New Share to raise up to approximately US\$2.35 billion (underwritten or committed to approximately US\$2.3 billion).

The Entitlement Offer closes at 5.00pm (Sydney time) on 25 August 2017 (unless extended). Valid applications must be received before that time.

This document is dated 1 August 2017.

## **NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES**

THIS IS AN IMPORTANT DOCUMENT WHICH IS ACCOMPANIED BY A PERSONALISED ENTITLEMENT AND ACCEPTANCE FORM AND BOTH SHOULD BE READ IN THEIR ENTIRETY. PLEASE CALL YOUR STOCKBROKER, ACCOUNTANT, FINANCIAL ADVISER, TAXATION ADVISER OR OTHER INDEPENDENT PROFESSIONAL ADVISER OR THE COMPANY OFFER INFORMATION LINE IF YOU HAVE ANY QUESTIONS.

# Entitlement Offer booklet

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<b>Important information</b>	<b>3</b>
<b>Key dates</b>	<b>5</b>
<b>Chairman's letter</b>	<b>7</b>
<b>Investment overview</b>	<b>12</b>
1. The Offer and how to apply for New Shares and Additional New Shares under the Entitlement Offer	30
2. About the Company	42
3. Financial information	85
4. Risk factors	98
5. Directors, key management personnel and corporate governance	120
6. Taxation implications of the Entitlement Offer for Eligible Shareholders	132
7. Material contracts	136
8. Additional information	151
<b>Glossary</b>	<b>165</b>
<b>Appendix A – Historical financial information of Yancoal and Coal &amp; Allied</b>	<b>174</b>
<b>Corporate directory</b>	<b>182</b>

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# Important information

## NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

No cooling-off rights apply to the Entitlement Offer. Accordingly, you cannot withdraw your Application once it has been accepted by the Company.

The information in this booklet is not a prospectus, product disclosure statement, disclosure document or other offering document under the Corporations Act (or any other law) and has not been lodged with ASIC. This booklet does not constitute a recommendation to subscribe for or purchase any security or financial product and neither this document nor anything attached to this document shall form the basis of any contract or commitment.

The Entitlement Offer is being made pursuant to provisions of the Corporations Act which allow entitlement offers to be made by providing certain confirmations to the market. As a result, it is important for Eligible Shareholders to read and understand the information on the Group and the Entitlement Offer made publicly available, prior to accepting all or part of their Entitlement or accepting all of their Entitlement and applying for Additional New Shares. In particular, please refer to the information in this booklet, the Group's annual reports and other announcements made available at [www.yancoal.com.au](http://www.yancoal.com.au) or [www.asx.com.au](http://www.asx.com.au).

This booklet contains certain 'forward-looking statements'. Forward-looking statements include those containing words such as: 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'could', 'may', 'target', 'plan', 'consider', 'foresee', 'aim', 'will' and other similar expressions. Any forward-looking statements, opinions and estimates provided in this booklet are based on assumptions and contingencies which are subject to change without notice and involve known and unknown risks and uncertainties and other factors which are beyond the control of the Group and the Directors, including the risks and uncertainties described in Section 4 'Risks' of this booklet. This includes any statements about market and industry trends, which are based on interpretations of current market conditions.

Forward-looking statements may include indications, projections, forecasts and guidance on sales, earnings, dividends and other estimates. Forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may differ materially from those expressed or implied in such statements and any projections and assumptions on which those statements are based. These statements may assume the success of the Group's business strategies. The success of any of these strategies is subject to uncertainties and contingencies beyond the Group's and its Director's control, and no assurance can be given that any of the strategies will be effective or that the anticipated benefits from the strategies will be realised in the period for which the forward-looking statements may have been prepared or otherwise. Readers are cautioned not to place undue reliance on forward-looking statements and, except as required by law or regulation, the Company assumes no obligation to update these forward-looking statements. To the maximum extent permitted by law, the Company and its Directors, officers, employees, agents, associates and advisers disclaim any obligations or undertaking to release any updates or revisions to the information to reflect any change in expectations or assumptions; do not make any representation or warranty, express or implied, as to the accuracy, reliability or completeness of such information, or likelihood of fulfilment of any forward-looking statements or any event or results expressed or implied in any forward-looking statements; and disclaim all responsibility and liability for these forward-looking statements (including, without limitation, liability for negligence).

The information in this booklet does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Entitlement Offer, the Entitlements or the New Shares, or otherwise permit a public offering of the New Shares, in any jurisdiction outside of Australia, New Zealand and the jurisdictions contemplated in the 'Selling Restrictions' contained in Section 8.6.

This booklet and any material accompanying it may not be released or distributed in the United States. This booklet and any material accompanying it does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Entitlements, New Shares and Additional New Shares have not been, and will not be, registered under the U.S. Securities Act of 1933 (as amended) (**U.S. Securities Act**) or the securities laws of any state or other jurisdiction of the United States. The Entitlements may not be taken up by persons in the United States and the New Shares (or Additional New Shares (as the case may be)) may not be offered or sold in the United States except in transactions

exempt from, or not subject to, the registration requirements of the U.S. Securities Act and the applicable securities laws of any state or other jurisdiction of the United States. The New Shares and Additional New Shares to be offered and sold to Eligible Shareholders will only be sold in 'offshore transactions' (as defined in Rule 902(h) under the U.S. Securities Act) in compliance with Regulation S thereunder.

This booklet is not financial product or investment advice nor a recommendation to acquire Shares and has been prepared without taking into account the objectives, financial situation or needs of individuals. Before making an investment decision prospective investors should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek legal, taxation and financial advice appropriate to their jurisdiction and circumstances.

The Company is not licensed to provide financial product advice in respect of the New Shares.

To the extent that China International Capital Corporation Hong Kong Securities Limited provides financial services in Australia in connection with the Offer, CICC is exempt from the requirement to hold an Australian financial services licence in respect of the financial services being provided by it. CICC is regulated by the Securities and Futures Commission of Hong Kong under Hong Kong laws, which differ from Australian laws.

An investment in New Shares and Additional New Shares is subject to investment and other known and unknown risks, some of which are beyond the control of the Company, including possible loss of income and principal invested. The Company does not guarantee any particular rate of return or the performance of the Company, nor does it guarantee the repayment of capital from the Company or any particular tax treatment. In considering an investment in New Shares and Additional New Shares, investors should have regard to (among other things) the risks and disclaimers outlined in this booklet.

# Key dates

Event	Date
Announcement of the Entitlement Offer and the Placement	10pm, Tuesday, 1 August 2017
Shares quoted on an 'ex' basis (Entitlement trading on ASX begins (deferred settlement basis))	Friday, 4 August 2017
Record Date	7.00pm on Monday, 7 August 2017
Entitlement Offer opens	Thursday, 10 August 2017
Entitlement Offer booklet and personalised Entitlement and Acceptance Form despatched to Eligible Shareholders	Thursday, 10 August 2017
Entitlements commence trading on a normal settlement basis	Friday, 11 August 2017
Last date of Entitlement trading on ASX	Friday, 18 August 2017
New Shares quoted on ASX on a deferred settlement basis	Monday, 21 August 2017
Entitlement Offer closes	5.00pm on Friday, 25 August 2017
Entitlement Offer Bookbuild (if required)	Friday, 25 August 2017
Settlement of New Shares issued under the Entitlement Offer and Placement and settlement of Additional New Shares issued under the Entitlement Offer	Wednesday, 30 August 2017
Issue of New Shares under the Entitlement Offer and Placement and issue of Additional New Shares under the Entitlement Offer	Thursday, 31 August 2017
Despatch of holding statements	Friday, 1 September 2017
Normal trading of New Shares and Additional New Shares expected to commence on ASX	Friday, 1 September 2017
Entitlement Offer Premium (if any) paid to Renouncing Shareholders	Tuesday, 12 September 2017

Dates and times in this booklet are indicative only and subject to change. All times and dates refer to Sydney, Australia time.

The Company reserves the right, subject to the Corporations Act, ASX Listing Rules, Joint Lead Manager approval and other applicable laws, to vary the dates of the Entitlement Offer without prior notice, including extending the closing date for the Entitlement Offer or accepting late Applications, either generally or in particular cases, or to withdraw the Entitlement Offer for any reason (including, without limitation, the failure to receive any approval necessary in connection with the Acquisition or the Entitlement Offer) without prior notice. Applicants are encouraged to submit their personalised Entitlement

and Acceptance Form as soon as possible. No cooling-off rights apply to Applications submitted under the Entitlement Offer. The commencement of quotation of New Shares and Additional New Shares is subject to confirmation from ASX.

### **Enquiries**

Before making a decision about investing in the Entitlement Offer, you should seek advice from your stockbroker, accountant, financial adviser, taxation adviser or other independent professional adviser to determine whether it meets your objectives, financial situation and needs.

If you have any questions on how to:

- (a) complete the personalised Entitlement and Acceptance Form accompanying this booklet which Eligible Shareholders may use to apply for New Shares and Additional New Shares; or
- (b) take up your Entitlement either in full or in part; or
- (c) sell all or part of your Entitlement on ASX or directly to a third party; or
- (d) take up your Entitlement in full and apply for Additional New Shares,

please call the Company's Offer Information Line between 9:00am and 5:00pm (Sydney, Australia time) Monday to Friday during the Offer Period:

Within Australia: 1300 059 020 (toll free number)

Outside Australia: +61 3 9415 4292

If you have lost your personalised Entitlement and Acceptance Form and would like a replacement form, please call the applicable number above.

### **Website**

To view annual reports, shareholder information and information about the Group, announcements, background information on the Group's operations and historical information, visit the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au).

# Chairman's letter

1 August 2017

Dear Eligible Shareholder,

As announced on 26 June 2017, the Company has entered into an amended binding agreement to acquire 100% of the shares in Coal & Allied from wholly-owned subsidiaries of Rio Tinto for US\$2.69 billion in value, comprising US\$2.45 billion cash payable on completion and US\$240 million in future non-contingent royalty payments over five years following Completion and a coal price linked contingent royalty.<sup>1</sup>

To fulfil its obligations under the binding implementation agreement for the Acquisition and the corresponding requirements of the HVO Joint Venture Agreement, Yancoal made, and MDP accepted, an irrevocable tag-along offer to acquire HVOR's 32.4% interest in HVO for US\$710 million<sup>2</sup>. The Company has separately acquired an option to purchase MDP's 28.9% interest in the Warkworth joint venture for US\$230 million, exercisable at any time between completion of the Acquisition and 31 December 2018.

As announced on 28 July 2017, Yancoal has separately entered into a conditional binding implementation agreement with Glencore, under which Yancoal and Glencore will establish a 51% (Yancoal) and 49% (Glencore) unincorporated joint venture in relation to HVO. Glencore has agreed to pay US\$1,139 million for its 49% interest, of which US\$710 million will be paid to HVOR for the acquisition of HVOR's 32.4% interest in HVO and US\$429 million will be paid to Yancoal for the acquisition of a 16.6% interest in HVO from Yancoal. Glencore will also pay to Yancoal 27.9% of the US\$240 million in future non-contingent royalty payments and 49% of the coal price linked contingent royalty payments associated with HVO that are payable by Yancoal to Rio Tinto for the Acquisition. Glencore has committed to underwrite US\$300 million of New Shares in the Entitlement Offer as described below. This underwriting commitment is not conditional on completion of the Glencore Transaction.

Following completion of these transactions, the Company is expected to become Australia's largest pure-play coal producer.

The Directors are pleased to invite you to participate in Yancoal's 23.6 for 1 pro-rata Entitlement Offer of New Shares in the Company at a price of US\$0.10 per New Share to raise up to approximately US\$2.35 billion. In addition to the Entitlement Offer, the Company will also conduct a placement to strategic investors at a price of US\$0.10 per New Share to raise approximately US\$150 million. The terms of the Offer have been determined by the Company's independent board committee<sup>3</sup>.

Gross proceeds raised under the Offer (if fully subscribed) will be approximately US\$2.5 billion and will be used to provide funding for the Acquisition<sup>4</sup> and to pay costs associated with the Acquisition and the Offer. To the extent that there is a shortfall between the funds received by the Company under the Offer and the US\$2.45 billion cash purchase price for the Acquisition, such shortfall up to a maximum amount of US\$1 billion will be drawn from the Yankuang Back-stop Facility to provide funding for the Acquisition (see Section 2.11 for further information).

The Acquisition has the full support of the Company's majority shareholder, Yanzhou and Yanzhou's majority shareholder, Yankuang. Yanzhou has committed to subscribe for US\$1 billion of its Entitlements. Yanzhou has agreed to make its approximately US\$830 million of unexercised Entitlements available to satisfy demand for Additional New Shares applied for by other Eligible Shareholders up to their Guaranteed Allocation<sup>5</sup>.

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<sup>1</sup> See Section 7.1 for further details.

<sup>2</sup> Acquisition of the HVO tag-along interest is subject to completion of the Acquisition and other regulatory approvals and is expected to occur at least six months after completion of the Acquisition.

<sup>3</sup> The independent board committee comprises Mr Gregory Fletcher, Dr Geoff Raby, Mr Vince O'Rourke and Mr Joe Zhang. It was established by the Board to consider and take actions in relation to the funding required for the Acquisition and any other element of the transaction which may constitute a related party transaction, to ensure that these matters were undertaken in the best interests of the Company and its Shareholders.

<sup>4</sup> Remaining cash required for the upfront consideration for the Acquisition and associated transaction costs will be funded by unrestricted cash reserves and/or committed credit facilities. Yancoal had US\$238 million in unrestricted cash reserves and approximately US\$370 million in committed undrawn credit facilities as at 30 June 2017 available to draw upon, based on unaudited financial accounts and a US\$:AU\$ FX rate of 0.75.

<sup>5</sup> Yanzhou may also, if requested by the Company and the Joint Lead Managers, assign unexercised Entitlements in the Entitlement Offer to institutional investors, subject to all demand for Additional New Shares up to the Guaranteed Allocations of Eligible Shareholders having been satisfied.

### **Details of the Acquisition and MDP Tag-along Agreement**

The Acquisition, MDP Tag-along Agreement and Glencore Transaction are consistent with the Company's strategy to position itself as a leading ASX-listed pure-play coal producer.

Key benefits of the Acquisition are expected to include:

- the opportunity to transform Yancoal into Australia's largest pure-play coal producer with majority interests in three of the ten largest thermal coal operations<sup>6</sup> in Australia (HVO, MTW and Moolarben) all of which produce high quality thermal coal products in demand with blue chip customers in North Asia;
- the potential to unlock significant synergies from the integration of the Acquisition with the Company's existing portfolio, including: (i) coal blending and marketing opportunities, (ii) site, infrastructure and procurement efficiencies, and (iii) corporate and administrative cost savings, including the potential to utilise the carried forward losses in the Group;
- the ability for the Company to capitalise on the substantial build out of modern super critical and ultra-super critical generation capacity in Asia, that require high quality thermal coals consistent with the coal products supplied by Moolarben, HVO and MTW;
- the potential to unlock significant incremental synergies from the creation of the HVO Joint Venture with Glencore including: (i) significant increase in marketable reserves as result of "barrier coal" and (ii) within 6 months of completion of the HVO Joint Venture, both parties will work together to complete and agree an updated mine plan to realise further annual cost savings;
- the delivery of a sustainable capital structure (pro forma net debt<sup>7</sup> / LTM EBITDA of 3.1x<sup>8,9</sup>, as compared to 12.2x on a standalone basis)<sup>10</sup> and cash flows that are expected to enable the Company to create Shareholder value; and
- accretive across key operating and financial metrics.<sup>11</sup>

The Acquisition, MDP Tag-along Agreement and Glencore Transaction are transformative and exciting transactions for Shareholders and are expected to form the basis of the Company's future growth and success. Through the acquisition of Coal & Allied's high quality asset portfolio, the Company expects to be able to generate substantial cash flows, deliver quality coal products and build long-term relationships with end-users in key global markets.

Completion of the Acquisition remains subject only to approval by Yanzhou's shareholders which is scheduled to occur on 25 August 2017.<sup>12</sup> All regulatory conditions precedent for the Acquisition have been satisfied or waived and Rio Tinto shareholders have approved the Acquisition. The Company expects to complete the Acquisition within the third quarter of 2017. Completion of the Glencore Transaction is subject to completion of the Acquisition, MDP consent and receipt of other regulatory approvals. Further information about the Acquisition, MDP Tag-along Agreement and Glencore Transaction, including their strategic and financial benefits, is set out in the 'Investment Overview'.

### **Details of the Entitlement Offer**

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<sup>6</sup> Coal mines where thermal coal comprises at least 50% of saleable production.

<sup>7</sup> Net debt as at 30 June 2017, pro forma for the Coal & Allied Acquisition and Glencore Transaction and associated estimated transaction costs and stamp duty payable by Yancoal and based on a US\$:A\$ FX rate of 0.75. Net debt includes unconverted SCNs, despite SCNs being accounting and tax equity and excludes finance leases, non-contingent royalties payable for the Acquisition net of non-contingent royalties receivable for the Glencore Transaction, indebtedness associated with Watagan which is deconsolidated from the Company's financial statements and restricted cash.

<sup>8</sup> Annualised based on CY17 YTD financials (as at 30 June 2017); sourced from unaudited management accounts and adjusted for run-rate synergies as described in 2.2(b)). These annualised figures are not a CY17 forecast, and simply reflect a doubling of first half results. They are also normalised for one-off events (i.e. transaction costs, stamp duty).

<sup>9</sup> Unaudited last 12 months' EBITDA to 30 June 2017, pro forma for the Coal & Allied Acquisition and Glencore Transaction and based on a US\$:A\$ FX rate of 0.75. EBITDA includes run-rate synergies assuming Yancoal ultimately has a 51% interest in HVO, excludes incremental synergies from the Glencore Transaction and is adjusted for the before tax impact of one-off items including fair value losses recycled on hedge reserve, transaction costs (including stamp duty) and revaluation of royalty.

<sup>10</sup> Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

<sup>11</sup> Normalised for one-off events (i.e. transactions cost, stamp duty).

<sup>12</sup> Yankuang, which holds a majority of Yanzhou voting shares, has indicated that it will vote in favour of the resolution approving the Acquisition.



Under the Entitlement Offer, Eligible Shareholders are entitled to acquire 23.6 New Shares for every 1 existing Share held on the Record Date, being 7.00pm (Sydney, Australia time) on Monday, 7 August 2017.

Eligible Shareholders who take up their Entitlement in full may also apply for Additional New Shares in excess of their Entitlements at the Offer Price.

- **Such Eligible Shareholders are guaranteed to receive Additional New Shares applied for up to their Guaranteed Allocation.**<sup>13</sup>
- Additional New Shares above a relevant Eligible Shareholder's Guaranteed Allocation will only be allocated to an Eligible Shareholder if the Entitlement Offer Bookbuild does not clear above the Offer Price (and if available).
- Allocations of Additional New Shares will be determined by agreement between the Company and the Joint Lead Managers (each acting reasonably). Where the Entitlement Offer Bookbuild does not clear above the Offer Price, relevant Eligible Shareholders will generally receive such number of Additional New Shares which they have applied for (above their Guaranteed Allocation) in preference to new investors and the Underwriters (although the Company, in consultation with the Joint Lead Managers, may scale-back applications for Additional New Shares above an Eligible Shareholder's Guaranteed Allocation having regard to all relevant circumstances, including an Eligible Shareholder's underlying Shareholding at the Record Date).

The Offer Price represents a:

- 67.9% discount to the closing price of the Shares on 31 July 2017 of A\$0.390 per Share<sup>14</sup>; and
- 4.6% discount to the theoretical ex rights price of A\$0.131 per Share .<sup>15</sup>

The pro rata nature of the Entitlement Offer favours existing Shareholders in recognition of their continuing support and provides an equitable mechanism for Shareholders to participate.

New Shares and Additional New Shares issued under the Entitlement Offer will rank equally with existing Shares.

The Entitlement Offer is being managed by the Joint Lead Managers being, Morgan Stanley Australia Securities Limited, J.P. Morgan Australia Limited and China International Capital Corporation Hong Kong Securities Limited. The Joint Lead Managers are not underwriting the Offer. Yanzhou has committed to take up US\$1 billion of its Entitlements under the Entitlement Offer, and the balance of the Entitlement Offer is underwritten to the value of US\$1.3 billion by the Underwriters severally, in their Respective Proportions and in accordance with the Underwriter Allocation Policy. The Underwriters are the sophisticated and professional investors described in Section 7.4.

Eligible Shareholders who do not take up or sell their Entitlement (in full or in part) or whose Application is not supported by cleared funds will be deemed to have renounced their Entitlement (or that part of their Entitlement that they have not taken up or sold) and those renounced Entitlements will be transferred and potentially sold in the Entitlement Offer Bookbuild on behalf of Eligible Shareholders. Accordingly, Eligible Shareholders should note that if they renounce all or part of their Entitlement, their percentage shareholding in the Company will be diluted to the extent of their non-participation in the Entitlement Offer (in addition to any dilution arising from the Placement and SCN conversion).

Entitlements are renounceable and will be tradeable on ASX or transferrable off-market, and are otherwise transferrable in the Entitlement Offer Bookbuild (described below). This provides Eligible Shareholders the opportunity to sell some or all of their Entitlements in order to realise value for those Entitlements ahead of the Entitlement Offer Bookbuild. Trading of Entitlements is expected to commence on ASX at 10.00am on 11 August 2017 and to cease on close of trading on 18 August 2017.

The renounceable nature of the Entitlement Offer allows all Eligible Shareholders who do not take up or sell some or all of their Entitlement (**Renouncing Shareholder**) to have those renounced Entitlements

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<sup>13</sup> A Guaranteed Allocation is that number of Additional New Shares which, together with the New Shares to which an Eligible Shareholder is entitled to acquire in the Entitlement Offer, will enable an Eligible Shareholder to maintain the same proportionate Shareholding (after issue of all New Shares and all Shares issued on SCN conversion) as it held at the Record Date.

<sup>14</sup> As at 31 July 2017 and based on a US\$:A\$ FX rate of 0.80.

<sup>15</sup> The theoretical ex-rights price (**TERP**) is a theoretical price at which Shares should trade immediately after the ex-date of the Entitlement Offer and takes into account the number of new securities to be issued under the Entitlement Offer, the Placement and SCN conversion. The TERP is a theoretical calculation only and the actual price at which Shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to TERP.

offered for sale through a bookbuild process to be undertaken by the Joint Lead Managers. Any proceeds in excess of the Offer Price per New Share that may be achieved through the Entitlement Offer Bookbuild (**Entitlement Offer Premium**) will be remitted to Renouncing Shareholders (net of expenses and withholdings required by law) in proportion to the number of New Shares represented by their renounced Entitlement. There is no guarantee that the Joint Lead Managers will be able to sell all (or any) renounced Entitlements or that any Entitlement Offer Premium will be realised from any such sales. Further information in respect of renounced Entitlements is set out in Sections 1.1 and 1.8 of this booklet.

It is the responsibility of purchasers of Entitlements to inform themselves of the Eligibility Criteria for exercise. If holders of Entitlements after the end of the trading period do not meet the Eligibility Criteria, they will not be able to exercise the Entitlements. In the event that holders are not able to take up their Entitlements, those Entitlements will lapse and, subject to the price per Share achieved through the Entitlement Offer Bookbuild, holders may receive no value for them.

Only Eligible Shareholders are entitled to participate in the Entitlement Offer. To satisfy applicable regulatory requirements, the Company expects to appoint a nominee and will issue that nominee with the Entitlements to subscribe for New Shares that would otherwise have been available for subscription by Ineligible Shareholders. The nominee (to the extent practicable) will arrange for the sale of those entitlements to certain institutional investors in the Entitlement Offer Bookbuild (which may include the Underwriters), and will work with the Company to distribute any Entitlement Offer Premium (net of expenses and withholdings required by law) proportionately to those Ineligible Shareholders.

### ***This booklet***

In this booklet, you will find the following:

- key dates for the Entitlement Offer;
- details of the Entitlement Offer including how to take up all or part of your Entitlement and apply for Additional New Shares in the Entitlement Offer if you choose to do so;
- details on how to sell your Entitlements or trade your Entitlements on ASX;
- information relating to the Company, its business, the Acquisition and the Placement;
- the risks associated with an investment in the Company;
- additional information relating to the Entitlement Offer and the Company; and
- a personalised Entitlement and Acceptance Form which details your Entitlement, to be completed by Eligible Shareholders in accordance with the instructions provided on that form.

### ***Taking up your Entitlement and applying for Additional New Shares***

If you decide to take up all or part of your Entitlement (or take up all of your Entitlement and apply for Additional New Shares), there are two alternative ways you can pay your Application Monies:

- post, to the Registry, your completed Entitlement and Acceptance Form, along with your Application Monies by cheque, bank draft or money order. The Registry address is specified on the personalised Entitlement and Acceptance Form<sup>16</sup>; or
- pay your Application Monies via BPAY®.<sup>17</sup> If you pay by BPAY® you do not need to complete and post your Entitlement and Acceptance Form to the Registry.

It is important to note that the Entitlement Offer closes at **5.00pm (Sydney time) on 25 August 2017**.<sup>18</sup> To participate, you need to ensure that:

- if you have paid your Application Monies, by cheque, bank draft or money order, your completed personalised Entitlement and Acceptance Form and your Application Monies are received by the Registry before 5:00pm (Sydney, Australia time) on 22 August 2017; or

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<sup>16</sup> Application Monies paid by cheque, bank draft or money order must be received by the Registry before 5.00pm (Sydney time) on 22 August 2017.

<sup>17</sup> ® Registered to BPAY Pty Ltd ABN 69 079 137 518. Note that BPAY® payments can only be made in A\$.

<sup>18</sup> Unless extended. The timetable for the Entitlement Offer is subject to variation.

- you have paid your Application Monies, via BPAY®<sup>19</sup> pursuant to the instructions that are set out on the personalised Entitlement and Acceptance Form so that they are received by the registry before 5:00pm (Sydney time) on 25 August 2017.

See Section 1.9 of this booklet for further information about payment methods.

***Further information***

Further information on the Entitlement Offer and the Group's business is detailed in this booklet. You should read the entirety of this booklet carefully, in particular the 'Risks' outlined in Section 4, before deciding whether to participate in the Entitlement Offer.

If you would like further information regarding the Entitlement Offer please call the Company's Offer Information Line on 1300 059 020 (within Australia) or +61 3 9415 4292 (from outside Australia) or visit the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au). For other questions, you should consult your broker, solicitor, accountant, taxation adviser, financial adviser or other professional adviser. You should be aware that the Company has not had regard to your individual circumstances or needs, including your personal taxation or financial position, in sending this booklet and accompanying information to you and the Company is not licensed to provide financial product advice to you in relation to your Shares, the Entitlements, the New Shares or the Additional New Shares. If you have any doubt about whether you should invest in the Entitlement Offer, you should seek professional advice before making any investment decision. Please note that no cooling-off period applies in relation to an investment in New Shares or Additional New Shares under the Entitlement Offer. Accordingly, you cannot withdraw your Application once it has been accepted.

On behalf of the Directors and management team of the Company, I invite you to consider this investment opportunity and thank you for your ongoing support.

Yours sincerely

Xiyong Li  
Chairman

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<sup>19</sup> Note that BPAY® payments can only be made in A\$.

# Investment overview

Topic	Summary	Further information
<b>Key features of the Offer</b>		
What is the Entitlement Offer?	A pro rata renounceable entitlement offer of 23.6 New Shares for every 1 existing Share held on the Record Date at US\$0.10 per New Share to raise approximately US\$2.35 billion.	Section 1.1
What is the Placement?	<p>A strategic placement of:</p> <ul style="list-style-type: none"> <li>US\$100 million of New Shares to Taizhong; and</li> <li>US\$50 million of New Shares to General Nice,</li> </ul> <p>at US\$0.10 per New Share. Placement Investors have agreed to establish a broader commercial relationship with the Company following Completion of the Acquisition and have entered into coal offtake agreements with the Company. A summary of the offtake arrangements is set out in Section 7.2.</p>	Section 1.2
Who is the issuer of Shares under the Entitlement Offer and Placement?	Yancoal Australia Ltd ABN 82 111 859 119	Section 2
What is the purpose of the Offer?	<p>The proceeds raised from the Offer will be used to:</p> <ul style="list-style-type: none"> <li>provide funding for the Acquisition; and</li> <li>pay the costs associated with the Offer.</li> </ul>	Section 1.3
<b>The Acquisition, MDP Tag-along Agreement and Glencore Transaction</b>		
Acquisition of Coal & Allied	The Company has entered into a binding agreement to acquire 100% of the shares in Coal & Allied from wholly-owned subsidiaries of Rio Tinto for US\$2.69 billion. <sup>20</sup> The Acquisition will result in the Company acquiring (through its ownership of the shares in Coal & Allied) Rio Tinto's interest in the HVO and MTW mines, a 36.5% interest in PWCS (the owner of a coal export terminal located at the Port of Newcastle), <sup>21</sup> as well as other coal exploration projects and landholdings. The Company intends to use proceeds raised under the Offer to fund the Acquisition.	Section 2.2

<sup>20</sup> Comprising US\$2.45 billion cash payable on completion of the Acquisition, and plus US\$240 million in future non-contingent royalty payments over five years following Completion. See Section 7.1 for further details.

<sup>21</sup> Yancoal has agreed to transfer the shares in Newcastle Coal Shippers held by Coal & Allied and Warkworth Coal Sales to a Glencore subsidiary (Anotero) following completion of the Glencore Transaction. This will reduce Coal & Allied's interest in PWCS to 30.0%

Topic	Summary	Further information
MDP Tag-along Agreement	To fulfil its obligations under the binding agreement for the Acquisition and the corresponding requirements of the HVO Joint Venture Agreement, Yancoal made, and MDP accepted, an irrevocable tag-along offer to acquire HVOR's 32.4% interest in HVO for US\$710 million. The Company has separately acquired an option to purchase MDP's 28.9% interest in the Warkworth joint venture for US\$230 million, exercisable at any time between completion of the Acquisition and 31 December 2018.	Section 7.1
Glencore Transaction	As announced on 28 July 2017, Yancoal has separately entered into a conditional binding implementation agreement with Glencore, under which Yancoal and Glencore will establish a 51% (Yancoal) and 49% (Glencore) unincorporated joint venture in relation to HVO. Glencore has agreed to pay US\$1,139 million for its 49% interest, comprising US\$710 million payable to HVOR for the acquisition of HVOR's 32.4% interest in HVO and US\$429 million payable to Yancoal for the acquisition of a 16.6% interest in HVO from Yancoal. Glencore has also committed to underwrite US\$300 million of the Entitlement Offer as described below. This commitment is not conditional on completion of the Glencore Transaction.	Section 7.12
Key benefits	<p>Key benefits are expected to include:</p> <ul style="list-style-type: none"> <li>• the opportunity to transform the Company into Australian's largest pure-play coal producer with majority interests in three of the ten largest thermal coal operations in Australia (HVO, MTW and Moolarben) all of which produce high quality thermal coal products in demand with blue chip customers in North Asia;</li> <li>• the potential to unlock significant synergies from the integration of the Acquisition with the Company's existing portfolio, including: (i) coal blending and marketing opportunities, (ii) site, infrastructure and procurement efficiencies, and (iii) corporate and administrative cost savings, including the potential to utilise the carried forward losses in the Group;</li> <li>• the ability for the Company to capitalise on the substantial build out of modern super critical and ultra-super critical generation capacity in Asia, that require high quality thermal coals consistent with the coal products supplied by Moolarben, HVO and MTW;</li> </ul>	Section 2.2(a)

Topic	Summary	Further information
	<ul style="list-style-type: none"> <li>the delivery of a sustainable capital structure (pro forma net debt<sup>22</sup> / LTM EBITDA of 3.1x<sup>23, 24</sup>) as compared to 12.2x on a standalone basis)<sup>25</sup> and cash flows that are expected to enable the Company to create Shareholder value; and</li> <li>accretive across key operating and financial metrics.<sup>26</sup></li> </ul>	

## The Company, its business and operations

ASX-listed Australian coal producer	The Company is an ASX-listed Australian-based coal producer which currently operates three mines and manages four others across NSW, QLD and WA.	Section 2.1
Diversified portfolio of coal assets	<p>The Company:</p> <ul style="list-style-type: none"> <li>has an 81% interest in Moolarben in the Western Coalfields of NSW (through its joint venture with Sojitz (a subsidiary of Sojitz Corporation) and the Australian subsidiaries of a consortium of Korean companies (comprising Korea Resources Corporation, Korea Southern Power Co., Ltd, Korea Midland Power Co., Ltd, Korea Western Power Co., Ltd and Korea South-East Power Corporation). Moolarben is an open cut coal mine which produces export quality thermal coal;</li> <li>owns Stratford Duralie, the open cut mines located in the Gloucester Basin in NSW, which produces high fluidity semi-soft coking and thermal coals;</li> <li>owns Yarrabee, an open cut mine located in central QLD's Bowen Basin, which produces ultra-low volatile, semi-anthracite PCI coal;</li> <li>has a near 50% interest in Middlemount (through its joint venture arrangements with Peabody Energy), an open cut mine located in QLD's Bowen Basin. Middlemount produces low volatile pulverised coal injection coal and hard coking coal used for</li> </ul>	Section 2.3

<sup>22</sup> Net debt as at 30 June 2017, pro forma for the Coal & Allied Acquisition and Glencore Transaction and associated estimated transaction costs and stamp duty payable by Yancoal and based on a US\$:A\$ FX rate of 0.75. Net debt includes unconverted SCNs, despite SCNs being accounting and tax equity and excludes finance leases, non-contingent royalties payable for the Acquisition net of non-contingent royalties receivable for the Glencore Transaction, indebtedness associated with Watagan which is deconsolidated from the Company's financial statements and restricted cash.

<sup>23</sup> Annualised based on CY17 YTD financials (as at 30 June 2017); sourced from unaudited management accounts and adjusted for run-rate synergies as described in 2.2(b). These annualised figures are not a CY17 forecast, and simply reflect a doubling of first half results. They are also normalised for one-off events (i.e. transaction costs, stamp duty).

<sup>24</sup> Unaudited last 12 months' EBITDA to 30 June 2017, pro forma for the Coal & Allied Acquisition and Glencore Transaction and based on a US\$:A\$ FX rate of 0.75. EBITDA includes run-rate synergies assuming Yancoal ultimately has a 51% interest in HVO, excludes incremental synergies from the Glencore Transaction and is adjusted for the before tax impact of one-off items including fair value losses recycled on hedge reserve, transaction costs (including stamp duty) and revaluation of royalty

<sup>25</sup> Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

<sup>26</sup> Normalised for one-off events (i.e. transactions cost, stamp duty).

Topic	Summary	Further information
	<p>export markets, with contracted rail and port capacity through the APCT in QLD;</p> <ul style="list-style-type: none"> <li>• manages Cameby Downs, an open cut mine located in south-east QLD, on behalf of its majority shareholder, Yanzhou. Cameby Downs produces a low ash export thermal coal and has port allocation through the QBH facility in Brisbane, QLD;</li> <li>• manages Premier, an open cut mine located in WA on behalf of its major shareholder Yanzhou. Premier provides power generation fuel for WA's south-west integrated grid;</li> <li>• holds exploration licences which are part of Monash, in the Hunter Valley, NSW; and</li> <li>• will acquire, on completion of the Acquisition: <ul style="list-style-type: none"> <li>○ a 67.6% interest in HVO;<sup>27</sup></li> <li>○ an 80.0% interest in Mt Thorley;<sup>28</sup> and</li> <li>○ a 55.6% interest in Warkworth.<sup>29</sup></li> </ul> </li> </ul>	
Access to coal infrastructure	<p>In addition to the above assets, the Company also has an equity interest in two port terminals, namely:</p> <ul style="list-style-type: none"> <li>• a 27% interest in NCIG, located in Newcastle, NSW; and</li> <li>• a 7.5% interest in WICET, located in Gladstone, QLD,</li> </ul> <p>and will acquire, on completion of the Acquisition, a 36.5% interest in PWCS,<sup>30</sup> a coal export terminal located at the Port of Newcastle. This interest comprises a direct shareholding of 30%, which is held by Coal &amp; Allied (and its subsidiaries), and an indirect shareholding of 6.5%, which is held through direct and indirect shareholdings in Newcastle Coal Shippers (which holds a 36.9% shareholding in PWCS). Those shareholdings in Newcastle Coal Shippers will be transferred to Anotero (a</p>	Section 2.4(a)

<sup>27</sup> As set out in Section 7.11 of this booklet, Yancoal's interest in HVO will reduce to 51.0% on completion of the Glencore Transaction. Completion of the Glencore Transaction is subject to a number of conditions precedent which have not been satisfied as at the date of this booklet.

<sup>28</sup> The remaining 20% interest in Mt Thorley is held by POSCO.

<sup>29</sup> The remaining interests in the Warkworth joint venture are held by MDP (as to 28.9%), Mitsubishi Materials Corporation (as to 6%) and Nippon Steel & Sumitomo Metal Corporation (as to 9.5%). The Company has a call option to purchase MDP's 28.9% interest in the Warkworth joint venture for \$230 million. This option may be exercised at any time from completion of the Acquisition to 31 December 2018. See Sections 2.8(e) and 7.1 for further information.

<sup>30</sup> The remaining interests in PWCS are held by Newcastle Coal Shippers (26.9291%), Coal Importer Shareholders (29.5897%) and Bloomfield Group (3.4611%). The Coal Importer Shareholders are the overseas buyers of coal shipped through PWCS. The shareholders of Newcastle Coal Shippers are the owners of a number of New South Wales coal projects. Shareholders holding more than 5% (other than Coal & Allied) are Anglo Coal (Drayton Management) Pty Ltd (20.00%), Ulan Coal Mines Limited (15.9742%), Warkworth Coal Sales (11.2681%) and PWCS (8.9640%). Warkworth Coal Sales is the sales company for the Warkworth Joint Venture. Coal & Allied holds a 55.5% shareholding in Warkworth Coal Sales. Yancoal has agreed to transfer the shares in Newcastle Coal Shippers held by Coal & Allied and Warkworth Coal Sales to a Glencore subsidiary (Anotero) following completion of the Glencore Transaction. This will reduce Coal & Allied's interest in PWCS to 30%.

Topic	Summary	Further information
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subsidiary of Glencore) on completion of the Glencore Transaction.

The Company has also contracted port capacity entitlements at NCIG, WICET, APCT and PWCS.

### SCN conversion

Yancoal will simplify its capital structure in connection with the Offer and the Acquisition.

Sections 1.4 and 2.10

Yanzhou currently owns 18,000,031 SCNs, which are convertible into 18,000,031,000 Shares<sup>31</sup> (although Yanzhou is prevented, by the ATP Order<sup>32</sup>, from converting SCNs where such conversion would result in it having voting power of more than 78% in Yancoal).

Yanzhou has committed to convert as many of its SCNs as it is able to convert, having regard to the ATP Order, and this is expected to result in conversion of all of Yanzhou's SCNs.

The SCN conversion price will be US\$0.10 (being the same price as the Offer Price), and Yanzhou has agreed that this conversion price will apply even if the SCN Terms would otherwise have resulted in a lower adjusted conversion price as a result of the Offer.

Shares to be issued to Yanzhou on conversion of its SCNs will be issued on the Settlement Date.

Following SCN conversion and assuming take-up of all New Shares the subject of subscription or underwriting commitments received in respect of the Offer (collectively totalling US\$2.45 billion), Yanzhou's expected post-Offer share and SCN holdings are set out below:

Section 2.10

Offer take up	Yanzhou SCN holding following completion of the Offer and SCN conversion (number of SCNs)	Yanzhou Shareholding following completion of the Offer and SCN conversion (% of Shares) <sup>33</sup>
US\$2.45 billion	0	65%

### Risks associated with an investment in the Company

Before applying for New Shares or Additional New Shares, you should consider whether the New Shares or Additional New Shares (as the case may be) are a suitable investment for you. There are risks associated with an investment in Shares and the Company, many of which are outside the control of the Company and its Directors. Some of the key risks associated with an investment in the Company and the Entitlement Offer include those set out below. These and other risks addressed in more detail in Section 4 should be considered by prospective investors.

### Key risks associated with the Acquisition

<sup>31</sup> Based on a conversion price of US\$0.10 per Share. This is the conversion price applying as at issue of the SCNs, although it is possible that a lower conversion price could apply following the Offer as a result of adjustment provisions included in the SCN Terms.

<sup>32</sup> Except with approval from the Company's minority Shareholders.

<sup>33</sup> Note that Yanzhou's maximum shareholding in the Company is expected to be approximately 65% following the Offer and SCN conversion. However, Lucion Group, an Underwriter of the Entitlement Offer, may be regarded as an associate of Yanzhou, and Yanzhou's maximum voting power is therefore expected to be 72% (if Lucion Group is required to take up its full underwriting commitment).



Topic	Summary	Further information
Failure of due diligence to identify liabilities	<p>If the Acquisition is completed, the Company will become directly or indirectly liable for any liabilities that Coal &amp; Allied has incurred in the past, including those liabilities which were not identified as part of the due diligence enquiries it undertook in connection with the Acquisition or which are greater than expected, and for which the protection (in the form of insurance, representations and warranties and indemnities) negotiated by the Company in connection with its agreement to acquire Coal &amp; Allied turns out to be inadequate. Such liabilities may adversely affect the financial performance or position of the Group post-Acquisition.</p>	Section 4.2(b)
Integration issues, disruptions and potential costs of achieving synergies	<p>If the integration of the Coal &amp; Allied business is not achieved in an orderly manner, the full benefits and cost savings may take longer than expected to be achieved, may only be achieved in part, or may not be achieved at all. This could adversely impact the Company's future financial performance and position, and the Company's future prospects.</p>	Section 4.2(c)
MDP Tag-along Agreement	<p>The Company is required to complete the MDP Tag-along Agreement within six months of completion of the Acquisition (provided NSW Government consent for the MDP Tag-along Agreement has been obtained by that date).</p> <p>Under the Glencore Transaction, Glencore has agreed to procure that its subsidiary (Anotero) purchase HVOR's 32.4% interest in HVO (replacing the MDP Tag-along Agreement, subject to MDP consenting to the substitution of Anotero as the purchaser under that transaction).<sup>34</sup> The Glencore Transaction is also conditional on receipt of regulatory approvals within 10 months of Completion.</p>	Section 4.2(d)
Pro forma market valuation	<p>Following completion of the Acquisition and the Offer, the Company will have a significantly expanded capital base and earnings base. Following the issue of New Shares under the Offer, and the draw-down of new debt facilities to fund the Acquisition, the Company will trade on implied valuation multiples, including earnings and cashflow multiples such as enterprise value-to-EBITDA, price-to-earnings and price-to-cashflow.</p> <p>There is a risk that the Company's implied valuation multiples will exceed that of listed comparable companies both in Australia and globally. No assurance can be provided on the after-market performance of the New Shares issued under the Offer. The potential risk of poor after-market</p>	Section 4.2(h)

<sup>34</sup> Otherwise the Company and Glencore will seek to implement other arrangement(s) for an equivalent 49% outcome.

Topic	Summary	Further information
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performance may be exacerbated by any perception that the Company is over-valued relative to peers on a trading multiples basis.

Pro forma leverage	<p>Following completion of the Acquisition and the Offer, the Company will have a significantly expanded debt and equity capital base. Assuming US\$2.5 billion of new equity is raised under the Offer as planned, the Company's pro forma debt, post the Acquisition, will be equal to US\$3,096 million, which would imply a pro forma net debt-to-EBITDA multiple of 3.1x<sup>35</sup> on a LTM basis.<sup>36</sup> This leverage multiple exceeds that of listed comparable companies both in Australia and globally.</p> <p>The impact of this elevated leverage on the performance of the Share price following completion of the Acquisition and completion of the Offer is unknown and could be materially adverse. In particular, any adverse movements in prevailing commodity prices or the operational performance of the Company could have increased adverse effects on the Company's equity valuation and returns given this heightened leverage.</p>	Section 4.2(i)
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#### Key risks associated with an investment in the Company

Funding requirements	<p>The amount of future funding required by the Group will depend on a number of factors, including the performance of the Company's business at that time.</p> <p>If a funding shortfall materialises, the Group may need to raise substantial additional debt or equity.</p> <p>To the extent that the Group is not able to secure additional financing (whether debt or equity) on acceptable terms from third parties, the Group will continue to rely on financial support from Yanzhou.</p> <p>Yanzhou's capacity to meet its funding commitments to the Company will depend on its financial position at the time and its capacity to raise the necessary funds to meet its commitments to the Company and other commitments.<sup>37</sup></p>	Section 4.3(a) and 4.3(d)
Refinancing	No assurance can be given that any refinancing of the Group's existing committed credit facilities on	Section 4.3(b)

<sup>35</sup> Annualised based on CY17 YTD financials (as at 30 June 2017); sourced from unaudited management accounts and adjusted for run-rate synergies as described in 2.2(b)). These annualised figures are not CY17 forecast, and simply reflect a doubling of first half results. They are also normalised for one-off events (i.e. transaction costs, stamp duty).

<sup>36</sup> Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

<sup>37</sup> Yanzhou has undertaken to the Company that, unless revoked by giving not less than 24 months' notice (or such shorter period as the Company may agree), for as long as Yanzhou owns at least 51% of the Shares, Yanzhou will ensure that the Company continues to operate so that it remains solvent. Yanzhou expects to hold a shareholding of at least 51% in the Company following completion of the Offer. In the event that the issue of New Shares under the Offer is likely to reduce Yanzhou's shareholding in the Company below 51%, the Company will, to the extent necessary, issue fewer Shares to the Underwriters such that Yanzhou's shareholding in the Company will remain at no less than 51% following completion of the Offer. This would result in the Offer raising less than intended.

Topic	Summary	Further information
	<p>their maturity will be available at all or on terms favourable to the Group. The Group's capacity to secure the requisite level of funding will depend on the amount of funding required, the performance and future prospects of the Group's business and a number of other factors, including US\$ coal prices, interest rates, economic conditions, debt market conditions, equity market conditions and future levels of Yanzhou support.</p>	
Bank guarantee facilities	<p>The Company intends to replace the CBA facility described in Section 2.12(b)(iii) of this booklet, including for the purposes of obtaining bank guarantees in relation to the assets acquired pursuant to the Acquisition following its completion. There is no guarantee that alternative financing arrangements will be available on acceptable terms (or at all) and, should this occur, this may have a material adverse effect on the Company's business, financial position or performance.</p>	Sections 4.2(g) and 7.8
Financial covenants	<p>The Group is subject to various financial covenants in relation to its banking facilities, including the BOC and CCB Syndicated Facility, one of the BOC Facilities and the CBA facility.</p> <p>Factors such as adverse movements in interest rates and coal prices, appreciation of the A\$ and deterioration of the financial performance of the Group's business or change in accounting standards could lead to a breach in financial covenants. If there is such a breach by the relevant Group members, the relevant lenders may require their loans to be repaid immediately and/or cancel the further availability of their facilities.</p> <p>In order to complete the Acquisition and associated transactions, various consents are required under the BOC and CCB Syndicated Facility and the BOC Facilities, and the Group proposes to replace the CBA facility with a syndicated facility. It is very likely that those changes to the financing arrangements will include adjustments to the various financial covenants to reflect the changes to the Group's financial position and/or to avoid breaches of the existing covenants which may arise as a result of the Acquisition and associated transactions. If the relevant consents and expanded facilities are not obtained, this may impact the Group's ability to complete the Acquisition in its current form.</p>	Section 4.3(c), 7.8 and 7.9
Adverse foreign exchange rate movements and change to functional currency	<p>The liabilities, earnings and cash flows of the Group are influenced by movements in exchange rates, especially movements in the A\$:US\$ exchange rate.</p> <p>There is a risk that the Group could sustain loss through adverse movements in exchange rates. Such losses can impact the Group's financial</p>	Section 4.3(f)

Topic	Summary	Further information
	<p>position and performance and the level of additional funding required to support the Group's businesses.</p> <p>In addition, if AAS specifies that a change to the Group's functional currency is necessary it may result in the immediate reversal of the current hedge reserve, which would have an adverse effect on the reported financial performance of the Group.</p>	
Taxation	<p>In addition to the corporate income tax imposed on the Group, the Group is required to pay government royalties, direct and indirect taxes and other imposts in the jurisdictions in which the Group will operate. The Group may be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies under Australian laws.</p> <p>The potential of the Group to obtain the benefit of existing tax losses and claim other tax attributes will depend on future circumstances and may be affected by changes in ownership, business activities, thin capitalisation thresholds, tax bases and any other conditions relating to the use of tax losses or other attributes of the Group. The ability to obtain financial synergies through use of the Group's deferred tax assets will depend on the Group's continued satisfaction of the loss recoupment tests under Australian tax laws and be subject to the availability of sufficient future taxable profits.</p>	Section 4.3(j)
Coal prices and coal demand	<p>The Group generates revenue from the sale of coal. The coal price is highly dependent on the outlook for coal consumption in large Asian economies, such as China, Japan and India, as well as any changes in government policy regarding coal or energy policy in those countries.</p> <p>Absent offsetting factors, significant and sustained adverse movements in demand for coal and, consequently, coal prices may have a material adverse impact on the ongoing financial performance and financial position of the Group and may result in the Group not proceeding with the development of new mines and projects due to such development not being economically viable.</p>	Section 4.3(g)
Estimates of Resources and Reserves	<p>The volume and quality of the coal that the Group recovers may be less than the Resource and Reserve estimates included in this booklet.</p> <p>If the Group's actual Resource and Reserve estimates are less than current estimates, the Group's prospects, value, business, results of operations and financial condition may be materially adversely affected.</p>	Section 4.3(l)
Control of Watagan and arrangements with	In accordance with the terms of the Watagan Agreements, the Company's interests in the NSW	Section 2.4(b)

Topic	Summary	Further information
respect of Ashton, Austar and Donaldson	<p>mining assets of Ashton, Austar and Donaldson were transferred to Watagan. While Watagan is wholly owned by the Company, it was determined that under the terms of the Watagan Agreements, upon issuance of the bonds, the Group lost control of Watagan and its subsidiaries. Accordingly, there is a risk that decisions may be made by Watagan that are contrary to the Company's interests.</p> <p>At the end of the term of the bonds in 2025, or earlier if control over Watagan passes back to the Company or the bondholders exercise their right to 'put' the bonds issued to them to Yankuang, the Company would need to consolidate Watagan's results and financial position from the date control was regained, and this re-acquisition would be treated as a business combination under AAS. On regaining control of Watagan, the Company would need to include Watagan including Austar, Ashton, Donaldson and any outstanding bonds, in its accounts at fair value, and there is a risk that any shortfall in value relative to the outstanding loan balance referred to in Section 2.3(b) of this booklet could result in a loss being recognised.</p>	
Competition	<p>The coal industry is highly competitive, and an increase in production or reduction in prices of competing coal from both Australia and overseas may adversely impact the Group's ability to sell its coal products and the price to be attained for sales.</p> <p>There may also be greater competition for the acquisition of new projects, which may adversely affect the ability of the Group to acquire new interests on acceptable terms should it wish to make such acquisitions.</p> <p>This pressure could adversely affect the Group's market share and financial performance or financial position.</p>	Section 4.3(y)
Changes in government policy, regulation or legislation	<p>The resources industry is subject to extensive legislation, regulations and supervision by a number of federal and state regulatory organisations.</p> <p>Any future legislation and regulatory change in Australia or overseas may affect the resources industry and may adversely affect the Group's financial performance or financial position.</p>	Sections 4.3(gg) and 4.3(kk)
Market price and liquidity of the New Shares and Additional New Shares	<p>The market price of the Company's Shares may fluctuate over time as a result of a number of factors including the financial performance and prospects of the Group, prevailing market conditions, general investor sentiment in those markets, inflation, interest rates, and the liquidity and the volume of the Shares being bought or sold at any point in time.</p>	Sections 4.4(a) and 4.4(b)

Topic	Summary	Further information
Underwriting risk	<p>The Company has entered into binding placement commitment letters with each Placement Investor, a binding equity subscription commitment letter with Yanzhou and underwriting commitment letters with each Underwriter.</p> <p>The Underwriters (other than Cinda), Yanzhou and the Placement Investors, are not entitled to terminate their respective commitments for any reason assuming all applicable conditions (including regulatory conditions) are met. However, there is a risk that if Cinda were to terminate its underwriting commitment or an Underwriter or Placement Investor was to fail to honour their commitments or, where applicable, the conditions to their commitments (including regulatory conditions) are not satisfied or waived, the Offer may not raise the full amount proposed to be raised (the Company will likely draw upon additional Shareholder Debt, including the Yankuang Back-stop Facility, and/or cash to complete the Acquisition).</p>	Sections 4.3(e), 4.4(c) and 7.4
Ownership dilution for non-participating shareholders	Those Shareholders who do not take up their Entitlements will have their ownership in the Company diluted (beyond the dilution from the Placement and SCN conversion). However, the Acquisition, MDP Tag-along Agreement and Glencore Transaction, along with the Offer, are transformative transactions that are expected to be accretive across key operating and financial metrics. <sup>38</sup>	Section 4.4(f)
<b>The Entitlement Offer</b>		
How much is being raised under the Entitlement Offer?	The 23.6 for 1 renounceable Entitlement Offer of New Shares at a price of US\$0.10 per New Share will raise up to approximately US\$2.35 billion if fully subscribed, and is underwritten or committed to the value of US\$2.3 billion.	Section 1.1
Is the Entitlement Offer underwritten?	<p>Yanzhou has committed to take up US\$1 billion of its Entitlements under the Entitlement Offer, and the balance of the Entitlement Offer is underwritten to the value of US\$1.3 billion by the Underwriters severally, in their Respective Proportions:</p> <ul style="list-style-type: none"> <li>• US\$750 million for Cinda;</li> <li>• US\$300 million for Glencore; and</li> <li>• US\$250 million for Lucion Group,</li> </ul> <p>in accordance with the Underwriter Allocation Policy and subject to the terms and conditions of the underwriting commitment letters entered into by each Underwriter prior to the date of this booklet. Please refer to Sections 7.4 and 7.6 of this booklet</p>	Section 1.5

<sup>38</sup> Normalised for one-off events (i.e. transactions cost, stamp duty).

Topic	Summary	Further information																		
	for further details. The Joint Lead Managers are not underwriting the Offer.																			
When does the Entitlement Offer open?	The Entitlement Offer opens on 10 August 2017.	Key Dates																		
When does the Entitlement Offer close?	The Entitlement Offer closes <sup>39</sup> at 5.00pm on 25 August 2017. <sup>40</sup>	Key Dates																		
What is the purpose of the Entitlement Offer and how will the expenses of the Entitlement Offer be paid?	<p>The proceeds raised from the Entitlement Offer will be used to:</p> <ul style="list-style-type: none"> <li>provide funding for the Acquisition; and</li> <li>pay the costs associated with the Acquisition and the Entitlement Offer.</li> </ul>	Section 1.3																		
What is the impact of the Entitlement Offer on the Company?	<p>The approximate capital structure of the Company will be as follows:</p> <table border="1"> <thead> <tr> <th>Securities</th> <th>Number of Shares</th> <th>Number of SCNs</th> </tr> </thead> <tbody> <tr> <td>Shares and SCNs on issue as at the date of this booklet</td> <td>994,276,659</td> <td>18,005,042</td> </tr> <tr> <td>New Shares offered under the Placement</td> <td>1,500,000,000</td> <td>-</td> </tr> <tr> <td>New Shares offered under the Entitlement Offer</td> <td>23,464,929,152</td> <td>-</td> </tr> <tr> <td>SCN conversion<sup>41</sup></td> <td>18,000,031,000</td> <td>-</td> </tr> <tr> <td>Total Shares and SCNs on issue following completion of the Offer and SCN conversion<sup>42</sup></td> <td>43,959,236,811</td> <td>5,011</td> </tr> </tbody> </table>	Securities	Number of Shares	Number of SCNs	Shares and SCNs on issue as at the date of this booklet	994,276,659	18,005,042	New Shares offered under the Placement	1,500,000,000	-	New Shares offered under the Entitlement Offer	23,464,929,152	-	SCN conversion <sup>41</sup>	18,000,031,000	-	Total Shares and SCNs on issue following completion of the Offer and SCN conversion <sup>42</sup>	43,959,236,811	5,011	Section 8.1
Securities	Number of Shares	Number of SCNs																		
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New Shares offered under the Entitlement Offer	23,464,929,152	-																		
SCN conversion <sup>41</sup>	18,000,031,000	-																		
Total Shares and SCNs on issue following completion of the Offer and SCN conversion <sup>42</sup>	43,959,236,811	5,011																		
What is the structure of the Entitlement Offer and who can apply?	The Company is conducting a 23.6 for 1 pro-rata renounceable entitlement offer (with rights trading) to retail investors with a registered address in Australia or New Zealand as at the Record Date,	Section 1.1																		

<sup>39</sup> Unless extended. The timetable for the Entitlement Offer is subject to variation.

<sup>40</sup> However, if you are paying by cheque, bank draft of money order, your Application Monies and completed Entitlement and Acceptance Form must be received by the Registry before 5:00pm (Sydney, Australia time) on 22 August 2017.

<sup>41</sup> Assuming full take-up under the Offer. For further information regarding the number of Shares to be issued on SCN conversion at different levels of investor participation, refer to Section 2.10.

<sup>42</sup> Assuming full take-up under the Offer. For further information regarding the number of SCNs to be converted at different levels of investor participation, refer to Section 2.10.

Topic	Summary	Further information
	and institutional investors permitted to participate having regard to the 'Selling Restrictions' contained in Section 8.6, to raise up to approximately US\$2.35 billion.	
Who is an Eligible Shareholder?	<p>To qualify to participate in the Entitlement Offer, a Shareholder must:</p> <ul style="list-style-type: none"> <li>• be registered as a holder of Shares as at the Record Date;</li> <li>• if a retail investor, have a registered address on the Company's share register in Australia or New Zealand and, if an institutional investor, be permitted to participate having regard to the 'Selling Restrictions' contained in Section 8.6;</li> <li>• not be in the United States and must not be acting for the account or benefit of a person in the United States (to the extent such a person holds Shares in the Company for the account or benefit of such persons in the United States); and</li> <li>• other than Shareholders who have a registered address in Australia or New Zealand on the Company's Share Register, be eligible under all applicable laws to receive an offer under the Entitlement Offer without a prospectus, disclosure document, product disclosure statement or any lodgement, filing, registration or qualification.</li> </ul>	Section 1.1
What can I do with my Entitlement?	<p>If you are an Eligible Shareholder, you may do any one of the following:</p> <ul style="list-style-type: none"> <li>• take up all or part of your Entitlement (and renounce the balance);</li> <li>• take up all of your Entitlement and also apply for Additional New Shares in excess of your Entitlement;</li> <li>• sell all or part of your Entitlement either on ASX or directly to a third party, or through the Entitlement Offer Bookbuild; or</li> <li>• do nothing, in which case you will be deemed to have renounced your Entitlement (and those renounced entitlements will be transferred and potentially offered for sale in the Entitlement Offer Bookbuild on your behalf).</li> </ul>	Section 1.7
Can I apply for New Shares in excess of my Entitlement?	<ul style="list-style-type: none"> <li>• Eligible Shareholders who take up their Entitlement in full may also apply for Additional New Shares in excess of their Entitlement at the Offer Price. <b>Such Eligible Shareholders are guaranteed to</b></li> </ul>	Sections 1.1 and 1.8



Topic	Summary	Further information
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**receive Additional New Shares applied for up to their Guaranteed Allocation<sup>43</sup>.**

- Additional New Shares above a relevant Eligible Shareholder's Guaranteed Allocation will only be allocated to an Eligible Shareholders if the Entitlement Offer Bookbuild does not clear above the Offer Price (and if available).
- Allocations of Additional New Shares will be determined by agreement between the Company and the Joint Lead Managers (each acting reasonably). Where the Entitlement Offer Bookbuild does not clear above the Offer Price, relevant Eligible Shareholders will generally receive such number of Additional New Shares which they have applied for (above their Guaranteed Allocation) in preference to new investors and the Underwriters (although the Company, in consultation with the Joint Lead Managers, may scale back applications for Additional New Shares above an Eligible Shareholder's Guaranteed Allocation having regard to all relevant circumstances, including an Eligible Shareholder's underlying Shareholding at the Record Date).

Yanzhou has agreed to make its approximately US\$830 million worth of unexercised Entitlements available to satisfy demand for Additional New Shares applied for by other Eligible Shareholders up to their Guaranteed Allocation.<sup>44</sup>

There is no guarantee you will receive the amount of Additional New Shares applied for above your Guaranteed Allocation, if any.

The allocation of any Additional New Shares above an Eligible Shareholder's Guaranteed Allocation will be limited to the extent that there are sufficient New Shares from Eligible Shareholders who do not take up their full Entitlement.

Any Excess Amount paid by you may be treated as an application to apply for as many Additional New Shares as your Excess Amount will pay for in full.

No Additional New Shares will be issued to an Eligible Shareholder which will result in them increasing their voting power in the Company above 20%.

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<sup>43</sup> A Guaranteed Allocation is that number of Additional New Shares which, together with the New Shares to which an Eligible Shareholder is entitled to acquire in the Entitlement Offer, will enable an Eligible Shareholder to maintain the same proportionate Shareholding (after issue of all New Shares and all Shares issued on SCN conversion) as it held at the Record Date.

<sup>44</sup> Yanzhou may also, if requested by the Company and the Joint Lead managers, assign unexercised entitlements in the Entitlement Offer to Institutional Investors, subject to all demand for Additional New Shares up to the Guaranteed Allocations of Eligible Shareholders having been satisfied.

Topic	Summary	Further information
How much will I pay per New Share or Additional New Share?	<p>The price payable for one New Share as well as the price payable for one Additional New Share under the Entitlement Offer is the Offer Price, being US\$0.10.</p> <p>Applicants can pay for New Shares or Additional New Shares in A\$ or US\$. If you apply in A\$, the Application Monies you submit will be converted to US\$ at the spot rate prevailing on the Entitlement Offer closing date (being 25 August 2017)<sup>45</sup> for the Entitlement Offer (less your pro rata share of the costs incurred by the Company for all such conversions, the <b>US\$ Equivalent Amount</b>). The spot exchange rate of A\$ to US\$ at 7pm on 31 July 2017 was \$0.80. Accordingly, if you apply for New Shares or Additional New Shares in A\$, you will be taken to have applied for that number of New Shares and/or Additional New Shares equal to your US\$ Equivalent Amount divided by the Offer Price (subject to rounding). For the avoidance of doubt, if you apply for your full Entitlement, pay your Application Monies in A\$ and the above currency translation results in an excess of Application Monies such excess will be deemed to constitute an Application for such number of Additional New Shares as is equal to the excess divided by the Offer Price. If the above currency conversion results in the Application Monies received being less than the amount required to pay for the Entitlements applied for the application will be deemed to constitute an Application for such number of Entitlements as is equal to the amount received following the currency conversion divided by the Offer Price.</p>	Section 1.8
Can I trade my Entitlement?	<p>Entitlements are renounceable and will be tradeable on ASX.</p> <p>Trading of Entitlements is expected to commence on ASX at 10.00am on 11 August 2017 and to cease on close of trading on 18 August 2017. You can also transfer Entitlements directly to third parties off-market.</p>	Sections 1.1 and 1.8
How can I apply?	<p>If you decide to take up all or part of your Entitlement, or take up all of your Entitlement and also apply for Additional New Shares in excess of your Entitlement, please:</p> <ul style="list-style-type: none"> <li>• pay your Application Monies via BPAY®;<sup>46</sup> or</li> <li>• complete and return the personalised Entitlement and Acceptance Form attached to this booklet with the requisite Application Monies, by following the instructions set</li> </ul>	Sections 1.1 and 1.8

<sup>45</sup> If you are paying by cheque, bank draft of money order, your Application Monies and completed Entitlement and Acceptance Form must be received by the Registry before 5.00pm (Sydney time) on 22 August 2017.

<sup>46</sup> Note that BPAY® payments can only be made in A\$.

Topic	Summary	Further information
	out on the personalised Entitlement and Acceptance Form. <sup>47</sup>	
Can I withdraw my Application?	<p>You cannot withdraw your Application once it has been accepted. Cooling-off rights do not apply to an investment in New Shares or Additional New Shares under the Entitlement Offer.</p> <p>The Company reserves the right to withdraw the Entitlement Offer at any time before the issue of New Shares or Additional New Shares to Eligible Shareholders, in which case the Company will refund any Application Monies already received in accordance with the Corporations Act and will do so without interest being payable to applicants.</p>	Section 1.10
Is brokerage, commission or stamp duty payable?	<p>No brokerage, commission or stamp duty will be payable by an Eligible Shareholder on the issue or taking up of Entitlements, or the issue of New Shares or Additional New Shares. However, we note that a liability for duty may arise if a shareholder (alone or together with associates) acquires 90% or more of the listed Shares in the Company and the Company is a 'land holder' for duty purposes at that time.</p> <p>You may incur brokerage costs if you choose to sell your Entitlement on ASX.</p>	Section 6
What are the tax implications of investing in New Shares and Additional New Shares (if any)?	<p>The tax consequences of any investment in New Shares and Additional New Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest in the Entitlement Offer.</p>	Section 6
When will the New Shares and Additional New Shares (if any) be issued?	<p>The issue of New Shares under the Entitlement Offer and Placement and the issue of Additional New Shares under the Entitlement Offer will occur on 31 August 2017.<sup>48</sup></p>	Key Dates
What are the terms of the New Shares and Additional New Shares (if any)?	<p>New Shares and Additional New Shares issued under the Entitlement Offer will rank equally with existing Shares, including in respect of entitlement to dividends.</p>	Section 1.1
When will the New Shares begin trading on ASX?	<p>Normal trading of New Shares and Additional New Shares is expected to commence on ASX on 1 September 2017.</p>	Key Dates
When will holding statements be despatched?	<p>Holding statements will be despatched on 1 September 2017.</p>	Key Dates

<sup>47</sup> If you are paying by cheque, bank draft or money order, your Application Monies and completed Entitlement and Acceptance Form must be received by the Registry before 5.00pm (Sydney time) on 22 August 2017.

<sup>48</sup> Unless extended. The Entitlement Offer timetable is subject to variation.

Topic	Summary	Further information
<b>Next steps</b>		
Read this booklet in full	The Entitlement Offer is being made pursuant to provisions of the Corporations Act, which allows entitlement offers to be made by providing certain confirmations to the market. As a result, it is important for Eligible Shareholders to read and understand the information on the Group and the Entitlement Offer made publicly available, prior to accepting all or part of their Entitlement or accepting all of their Entitlement and applying for Additional New Shares. In particular, please refer to the information in this booklet, the Group's annual reports and other announcements made available at <a href="http://www.yancoal.com.au">www.yancoal.com.au</a> or <a href="http://www.asx.com.au">www.asx.com.au</a> .	N/A
Determine if you are eligible to apply for New Shares and Additional New Shares	<p>To qualify to participate in the Entitlement Offer, a Shareholder must:</p> <ul style="list-style-type: none"> <li>• be registered as a holder of Shares as at the Record Date;</li> <li>• if a retail investor, have a registered address on the Company's share register in Australia or New Zealand and, if an institutional investor, be permitted to participate having regard to the 'Selling Restrictions' contained in Section 8.6;</li> <li>• not be in the United States and must not be acting for the account or benefit of a person in the United States (to the extent such a person holds Shares in the Company for the account or benefit of such persons in the United States); and</li> <li>• other than Shareholders who have a registered address in Australia or New Zealand on the Company's Share Register, be eligible under all applicable laws to receive an offer under the Entitlement Offer without a prospectus, disclosure document, product disclosure statement or any lodgement, filing, registration or qualification.</li> </ul>	Section 1.1
Consider and consult your legal, financial, tax or other professional advisers	Please consult with your stockbroker, accountant, financial adviser, taxation adviser or other independent professional adviser if you have any queries or are uncertain about any aspects of the Entitlement Offer or the information in this booklet. You should also refer to the 'Risks' in Section 4 of this booklet.	Sections 3, 4 and 6
Complete and submit your personalised Entitlement and Acceptance Form and	If you decide to take up all or part of your Entitlement, or take up all of your Entitlement and also apply for Additional New Shares in excess of your Entitlement, please:	Section 1.1 and 1.8

Topic	Summary	Further information
pay your Application Monies	<ul style="list-style-type: none"> <li>• pay your Application Monies via BPAY®;<sup>49</sup> or</li> <li>• complete and return the personalised Entitlement and Acceptance Form attached to this booklet with the requisite Application Monies, by following the instructions set out on the personalised Entitlement and Acceptance Form.<sup>50</sup></li> </ul>	

<sup>49</sup> Note that BPAY® payments can only be made in A\$.

<sup>50</sup> If you are paying by cheque, bank draft or money order, your Application Monies and completed Entitlement and Acceptance Form must be received by the Registry before 5.00pm (Sydney time) on 22 August 2017.

# 1. The Offer and how to apply for New Shares and Additional New Shares under the Entitlement Offer

## 1.1 The Entitlement Offer

### **Overview**

The Company is conducting a 23.6 for 1 pro-rata renounceable entitlement offer (with rights trading) to retail investors with a registered address in Australia or New Zealand as at the Record Date, and institutional investors permitted to participate having regard to the 'Selling Restrictions' contained in Section 8.6, to raise up to approximately US\$2.35 billion.

Eligible Shareholders are being offered the opportunity to apply for 23.6 New Shares for every 1 existing Share held at 7.00pm (Sydney time) on the Record Date, at the Offer Price of US\$0.10 per New Share.

The information in this booklet contains an offer of New Shares to retail investors in Australia and New Zealand, and institutional investors in the jurisdictions contemplated in the 'Selling Restrictions' contained in Section 8.6, and has been prepared in accordance with section 708AA of the Corporations Act.

### **Who is eligible to participate in the Entitlement Offer?**

You should note that not all of the Company's Shareholders will be eligible to participate in the Entitlement Offer. To qualify to participate in the Entitlement Offer, a Shareholder must:

- be registered as a holder of Shares as at the Record Date;
- if a retail investor, have a registered address on the Company's share register in Australia or New Zealand and, if an institutional or professional investor, be permitted to participate having regard to the 'Selling Restrictions' contained in Section 8.6;
- not be in the United States and must not be acting for the account or benefit of a person in the United States (to the extent such a person holds Shares in the Company for the account or benefit of such persons in the United States); and
- other than Shareholders who have a registered address in Australia or New Zealand on the Company's Share Register, be eligible under all applicable laws to receive an offer under the Entitlement Offer without a prospectus, disclosure document, product disclosure statement or any lodgement, filing, registration or qualification,

### **(Eligible Shareholder).**

Shareholders who do not satisfy each of these criteria are '**Ineligible Shareholders**'. The Company reserves the right to determine whether a Shareholder is an Eligible Shareholder or an Ineligible Shareholder. Ineligible Shareholders will be sent a letter in the form lodged with ASX on or about 10 August 2017.

The Company may (in its absolute discretion) extend the Entitlement Offer to any Shareholder in other foreign jurisdictions (subject to compliance with applicable laws).

The Company, in its absolute discretion, reserves the right to determine whether a Shareholder is an Eligible Shareholder and is therefore able to participate in the Entitlement Offer, or an Ineligible Shareholder and is therefore unable to participate in the Entitlement Offer. The Company disclaims all liability to the maximum extent permitted by law in respect of any determination as to whether a Shareholder is an Eligible Shareholder or an Ineligible Shareholder.

By returning a completed Entitlement and Acceptance Form or making a BPAY® payment,<sup>51</sup> you will be taken to have irrevocably represented and warranted that you satisfy each of the criteria listed above. Eligible Shareholders who are nominees, trustees or custodians must ensure that the beneficial owners on whose behalf they hold Shares as nominee, trustee or custodian are Eligible Shareholders, and are advised to seek independent professional advice as to how to proceed in respect of their Entitlement.

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<sup>51</sup> Note that BPAY® payments can only be made in A\$.

Persons acting as nominees for other persons must not take up any Entitlements on behalf of, or send any documents related to the Entitlement Offer to, any person in the United States.

### ***Ineligible Shareholders***

The Company has decided that it is unreasonable to make offers under the Entitlement Offer to holders of Shares:

- (a) who are in the United States; or
- (b) if a retail Shareholder, who have a registered address outside Australia or New Zealand; or
- (c) if an institutional Shareholder, have a registered address outside the jurisdictions contemplated in the 'Selling Restrictions' contained in Section 8.6,

having regard to the number of such holders in those places and the number and value of the New Shares that they would be offered and the cost of complying with the relevant legal and regulatory requirements in those places.

Ineligible Shareholders are not eligible to participate in the Entitlement Offer due to securities law restrictions on the offer of New Shares in certain jurisdictions.

### ***Your Entitlement to New Shares***

The number of New Shares to which an Eligible Shareholder is entitled will be shown on their personalised Entitlement and Acceptance Form that accompanies this booklet and has been calculated as 23.6 New Shares for every 1 existing Share held by the Eligible Shareholder as at the Record Date rounded up to the nearest whole New Share. Where an Eligible Shareholder has more than one registered holding of Shares, they will be sent more than one personalised Entitlement and Acceptance Form and will have separate Entitlements for each separate holding.

New Shares issued under the Entitlement Offer will be fully paid and rank equally with existing Shares on issue, including in respect of entitlement to dividends.

***Note: The Entitlement stated on your personalised Entitlement and Acceptance Form may be in excess of the actual Entitlement you may be permitted to take up where, for example, you are holding Shares on behalf of a person in the United States.***

### ***Nominees***

The Entitlement Offer is only being made to Eligible Shareholders. The Company is not required to determine whether any registered holder is acting as a nominee or the identity or residence of any beneficial owners of Shares (e.g. for the purposes of determining whether any such person is a Eligible Shareholder). Where any holder is acting as a nominee for a foreign person, that nominee, in dealing with its beneficiary, will need to assess whether indirect participation by the beneficiary in the Entitlement Offer complies with applicable foreign laws. Any person that is in the United States with a holding through a nominee may not participate in the Entitlement Offer and the nominee must not take up any Entitlement or send any materials into the United States or to any person it knows to be in the United States. The Company assumes no obligation to advise you on any foreign laws.

### ***Additional New Shares***

Eligible Shareholders who take up their Entitlement in full may also apply for Additional New Shares in excess of their Entitlement at the Offer Price.

- **Such Eligible Shareholders are guaranteed to receive Additional New Shares applied for up to their Guaranteed Allocation.**
- Additional New Shares above a relevant Eligible Shareholder's Guaranteed Allocation will only be allocated to an Eligible Shareholder if the Entitlement Offer Bookbuild does not clear above the Offer Price (and if available).
- Allocations of Additional New Shares will be determined by agreement between the Company and the Joint Lead Managers (each acting reasonably). Where the Entitlement Offer Bookbuild does not clear above the Offer Price, relevant Eligible Shareholders will generally receive such number of Additional New Shares which they have applied for (above their Guaranteed Allocation) in preference to new investors and the Underwriters

(although the Company, in consultation with the Joint Lead Managers, may scale back applications for Additional New Shares above an Eligible Shareholder's Guaranteed Allocation having regard to all relevant circumstances, including an Eligible Shareholder's underlying Shareholding at the Record Date).

Yanzhou has agreed to make its approximately US\$830 million worth of unexercised Entitlements available to satisfy demand for Additional New Shares applied for by relevant Eligible Shareholders up to their Guaranteed Allocations.<sup>52</sup>

There is no guarantee you will receive the amount of Additional New Shares applied for above your Guaranteed Allocation, if any. The allocation of any Additional New Shares will be limited to the extent that there are sufficient New Shares from Eligible Shareholders who do not take up their full Entitlement.

Any Excess Amount paid by you may be treated as an application to apply for as many Additional New Shares as your Excess Amount will pay for in full.

No Additional New Shares will be issued to an Eligible Shareholder which will result in them increasing their voting power in the Company above 20%.

### ***Trading of Entitlements***

Entitlements are renounceable and will be tradeable on ASX. This provides Eligible Shareholders the opportunity to sell some or all of their Entitlements in order to realise value for those Entitlements. Trading of Entitlements is expected to commence on ASX at 10.00am on 11 August 2017 and to cease on close of trading on 18 August 2017 (**Entitlement Trading Period**).

It is the responsibility of purchasers of Entitlements to inform themselves of the Eligibility Criteria for exercise. If holders of Entitlements after the end of the trading period do not meet the Eligibility Criteria, they will not be able to exercise the Entitlements. In the event that holders are not able to take up their Entitlements, those Entitlements will lapse and, subject to the price per Share achieved through the Entitlement Offer Bookbuild, holders may receive no value for them.

You can also transfer Entitlements directly to third parties off-market.

### ***The Entitlement Offer Bookbuild***

As the Entitlement Offer is renounceable, the Entitlements of Eligible Shareholders who do not take up or sell some or all of their Entitlement (or, in the case of Ineligible Shareholders, the Entitlements which would otherwise have been available to them) will be offered for subscription to certain institutional investors (including to the Underwriters) on behalf of Renouncing Shareholders and Ineligible Shareholders through the Entitlement Offer Bookbuild to be undertaken by the Joint Lead Managers. Any Entitlement Offer Premium will be remitted to Renouncing Shareholders and Ineligible Shareholders (net of expenses and any withholdings required by law) in proportion to the number of New Shares represented by their renunciation or ineligible holding. Further information in respect of renounced Entitlements and ineligible holdings is set out in Sections 1.1 and 1.8 of this booklet.

### ***Next steps***

If you decide to take up all or part of your Entitlement, or take up all of your Entitlement and apply for Additional New Shares, please refer to the personalised Entitlement and Acceptance Form attached to this booklet and apply for New Shares (and Additional New Shares, if any) pursuant to the instructions set out on the personalised Entitlement and Acceptance Form.

If you take no action or your application is not supported by cleared funds, you will be deemed to have renounced your Entitlement and you will not be issued New Shares or Additional New Shares (if applicable). You should note that if you renounce all or part of your Entitlement, then your percentage shareholding in the Company will be diluted to the extent of your non-participation in the Entitlement Offer (in addition to any dilution arising from the Placement and SCN conversion).

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<sup>52</sup> Yanzhou may also, if requested by the Company and the Joint Lead Managers, assign unexercised entitlements in the Entitlement Offer to institutional Investors, subject to all demand for Additional New Shares up to the Guaranteed Allocations of Eligible Shareholders having been satisfied.



## 1.2 The Placement

To assist with funding the purchase price for the Acquisition, the Company has also secured commitments from Taizhong and General Nice to subscribe for US\$100 million and US\$50 million respectively, and US\$150 million in aggregate of New Shares under the Placement. Shares to be issued under the Placement will be issued at the Offer Price and will be issued to the Placement Investors on the same date as New Shares and Additional New Shares are issued under the Entitlement Offer, being 31 August 2017.<sup>53</sup>

Shares issued under the Placement do not carry rights to participate in the Entitlement Offer.

The Placement Investors have agreed to establish a broader commercial relationship with the Company and have entered into coal offtake agreements with the Company, pursuant to which those investors will purchase coal from the Company. A summary of the offtake arrangements is set out in Section 7.2.

## 1.3 Use of proceeds raised under the Offer

The proceeds raised from the Offer will be used to:

- provide funding for the Acquisition; and
- pay the costs associated with the Acquisition and the Offer.

To the extent that there is a shortfall between the funds received by the Company under the Offer and the US\$2.45 billion purchase price for the Acquisition, such shortfall up to a maximum amount of US\$1 billion will be drawn from the Yankuang Back-stop Facility to provide funding for the Acquisition (see Section 2.11 for further information).

## 1.4 SCN conversion

In December 2014, Yancoal SCN Limited, a wholly owned subsidiary of the Company, issued the SCNs. As at the date of this booklet, Yanzhou holds 18,000,031 SCNs, which are convertible into 18,000,031,000 Shares<sup>54</sup> (although Yanzhou is prevented, by the ATP Order<sup>55</sup>, from converting SCNs where such conversion would result in it having voting power of more than 78% in Yancoal).

Yancoal will simplify its capital structure in connection with the Offer and the Acquisition to remove any 'overhang' associated with Yanzhou's SCNs as follows:

- Yanzhou has committed to convert as many of its SCNs as it is able to convert, having regard to the ATP Order, and this is expected to result in conversion of all of Yanzhou's SCNs (see the table below for further details).
- The SCN conversion price will be US\$0.10 (being the same as the Offer Price), and Yanzhou has agreed that this conversion price will apply even if the SCN Terms would otherwise have resulted in a lower adjusted conversion price as a result of the Entitlement Offer.
- Shares to be issued to Yanzhou on conversion of its SCNs will be issued at the same time as New Shares are issued under the Offer.

Following SCN conversion and assuming take-up of all New Shares the subject of subscription commitments or underwriting commitments received in respect of the Offer (collectively totalling US\$2.45 billion), Yanzhou's expected post-Offer share and SCN holdings are set out below:

Offer take-up	Yanzhou SCN holding following completion of the Offer and SCN conversion (# of SCNs)	Yanzhou Shareholding following completion of the Offer and SCN conversion (% of Shares) <sup>56</sup>
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<sup>53</sup> Unless extended. The Entitlement Offer timetable is subject to variation.

<sup>54</sup> Based on a conversion price of US\$0.10 per Share. This is the conversion price applying as at issue of the SCNs, although it is possible that a lower conversion price could apply following the Offer as a result of adjustment provisions included in the SCN Terms.

<sup>55</sup> Except with approval from the Company's minority Shareholders.

<sup>56</sup> Note that Yanzhou's maximum shareholding in the Company is expected to be approximately 65% following the Offer and SCN conversion. However, Lucion Group, an Underwriter of the Entitlement Offer, may be regarded as an associate of Yanzhou, and Yanzhou's maximum voting power is therefore expected to be 72% (if Lucion Group is required to take up its full underwriting commitment).

See Section 2.10 for further information.

## 1.5 Underwriting

The Entitlement Offer is being managed by the Joint Lead Managers. The Joint Lead Managers are not underwriting the Entitlement Offer.

Yanzhou has committed to take up US\$1 billion of its Entitlements under the Entitlement Offer, and the balance of the Entitlement Offer is underwritten to the value of US\$1.3 billion by the Underwriters severally, in their Respective Proportions, being:

- US\$750 million for Cinda;
- US\$300 million for Glencore; and
- US\$250 million for Lucion Group,

in accordance with the Underwriter Allocation Policy, and subject to the terms and conditions of the underwriting commitment letters entered into by each Underwriter prior to the date of this booklet. Please refer to Sections 7.3, 7.4 and 7.6 of this booklet for further details.

It is important to note that the Joint Lead Managers and the Underwriters will be acting for and providing services to the Company in relation to the Offer and will not be acting for or providing services to Shareholders. The Joint Lead Managers and the Underwriters have been engaged solely as independent contractors and are acting solely in a contractual relationship on an arm's length basis with the Company. The engagement of the Joint Lead Managers and the Underwriters by the Company is not intended to create any agency or other relationship between the Joint Lead Managers, the Underwriters and Shareholders.

## 1.6 Yanzhou and Yankuang support for the Acquisition

The Acquisition has the support of the Company's majority shareholder, Yanzhou and Yanzhou's majority shareholder, Yankuang. The board of directors of Yanzhou is of the view that the Acquisition is a compelling investment for the Group to develop, expand and diversify its high quality and low cost coal portfolio in Australia. Yanzhou intends to subscribe for approximately US\$1 billion of its Entitlements to assist the Company with funding the Acquisition.

Yanzhou has also agreed to take the steps outlined in Sections 1.4 and 2.10 in relation to its holding of SCNs, to simplify the Company's capital structure and that if the Company is unable to finalise a refinance and increase in the guarantee facility described in Section 2.12(b)(iii), including for the purposes of obtaining bank guarantees in relation to the assets acquired following completion of the Acquisition, it will work with the Company in good faith to find viable solutions. See Section 7.8 for further detail on the status of that refinancing.

To support the Acquisition, Yankuang has undertaken to ACH and HVR that if the Offer does not raise at least US\$2.1 billion, Yankuang will place the Company in sufficient funds for it to pay the purchase price at Completion under the Sale and Purchase Agreement. In addition, Yankuang has provided a US\$225 million cash deposit to ACH pending Completion of the Acquisition. This deposit will be forfeited if the Company fails to Complete the Acquisition due to insufficient funding or default at Completion, but otherwise is returnable to Yankuang on Completion.

Yankuang has in addition provided a binding, irrevocable undertaking to the Company to provide or otherwise procure its affiliates to provide funding of up to US\$1 billion under the Yankuang Back-stop Facility. Please refer to Sections 2.11 and 7.10.

If the Offer is launched but is unsuccessful or otherwise fails to raise sufficient funds to complete the Acquisition even with the amount under the Yankuang Back-stop Facility, Yankuang has also agreed to negotiate in good faith an alternative facility for the Company that will not exceed US\$2.5 billion as well as explore other viable solutions should this circumstance arise.

## 1.7 Options available to you in respect of the Entitlement Offer

If you are an Eligible Shareholder, you may do any one of the following:

- take up all or part of your Entitlement (and renounce the balance) (see Section 1.8 below);

- take up all of your Entitlement and also apply for Additional New Shares in excess of your Entitlement (see Section 1.8 below);
- sell all or part of your Entitlement:
  - on ASX or directly to a third party (see Section 1.8); or
  - through the Entitlement Offer Bookbuild (see Section 1.8); or
- do nothing, in which case you will be deemed to have renounced your Entitlement (and those renounced entitlements will be transferred and potentially offered for sale in the Entitlement Offer Bookbuild on your behalf) (see Section 1.8 below).

As the Entitlement Offer is renounceable, the Entitlements of Eligible Shareholders who do not take up or sell some or all of their Entitlements (and, in the case of Ineligible Shareholders, the entitlements which would otherwise have been available to them) will be offered for subscription to certain institutional investors on behalf of Renouncing Shareholders and Ineligible Shareholders through the Entitlement Offer Bookbuild to be undertaken by the Joint Lead Managers. Any Entitlement Offer Premium will be remitted to Renouncing Shareholders and Ineligible Shareholders (net of expenses and any withholdings required by law) in proportion to the number of New Shares represented by their renunciation or ineligible holding.

## 1.8 How to apply under the Entitlement Offer

### ***If you decide to take up all or part of your Entitlement or take up all of your Entitlement and apply for Additional New Shares***

If you decide to take up all or part of your Entitlement, or take up all of your Entitlement and also apply for Additional New Shares in excess of your Entitlement, please:

- pay your Application Monies via BPAY®<sup>57</sup>; or
- complete and return the personalised Entitlement and Acceptance Form attached to this booklet with the requisite Application Monies, by following the instructions set out on the personalised Entitlement and Acceptance Form.<sup>58</sup>

The Company will treat you as applying for as many New Shares as your Application Monies will pay for in full up to your full Entitlement and, in respect of any Excess Amounts received by the Company, may treat your application as applying for as many Additional New Shares as your Excess Amount will pay for in full, subject to any scale-back it may determine to implement in respect of Additional New Shares above your Guaranteed Allocation (in consultation with the Joint Lead Managers and having regard to all relevant circumstances, including your Shareholding at the Record Date).

If you take up and pay for all or part of your Entitlement, before the close of the Entitlement Offer, you will be issued your New Shares on 31 August 2017.<sup>59</sup> If you apply for Additional New Shares in excess of your Entitlement, then subject to:

- Additional New Shares being available from Eligible Shareholders who do not take up their full Entitlement (or, in the case of Ineligible Shareholders, the Entitlements which would otherwise have been available to them) (other than Additional New Shares up to your Guaranteed Allocation, which are guaranteed);
- the Entitlement Offer Bookbuild not clearing above the Offer Price; and
- any scale-back to your allocation of Additional New Shares above your Guaranteed Allocation (as determined by the Company, in consultation with the Joint Lead Managers and having regard to all relevant circumstances, including your underlying Shareholding at the Record Date),

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<sup>57</sup> Note that BPAY® payments can only be made in A\$.

<sup>58</sup> If you are paying by cheque, bank draft or money order, your Application Monies and completed Entitlement and Acceptance Form must be received by the Registry before 5.00pm (Sydney time) on 22 August 2017.

<sup>59</sup> Unless extended. The Entitlement Offer timetable is subject to variation.

you will be issued Additional New Shares on 31 August 2017.<sup>60</sup> The Company's decision on the number of Additional New Shares to be allocated to you will be final.

Other than to the extent that Additional New Shares are allotted to you, any Excess Amount will be refunded after the close of the Entitlement Offer on or around 12 September 2017 (except for where the amount is less than A\$2.00, in which case it will be donated to a charity chosen by the Company). No interest will be paid to Eligible Shareholders on any Application Monies received or returned (wholly or partially).

The Company also reserves the right (in its absolute discretion) to reduce the number of New Shares allocated to Eligible Shareholders or persons claiming to be Eligible Shareholders if their claims prove to be incorrect or overstated or if they fail to provide information to substantiate their claims.

To participate in the Entitlement Offer:

- If paying by BPAY®,<sup>61</sup> your Application Monies must be received no later than the close of the Entitlement Offer, being 5.00pm (Sydney, Australia time) on 25 August 2017.
- If paying via cheque, bank draft or money order, your completed personalised Entitlement and Acceptance Form and Application Monies must be received by no later than 5:00pm (Sydney, Australia time) on 22 August 2017.

***If you decide to sell all or part of your Entitlement on ASX***

If you decide to sell all or part of your Entitlement on ASX, you should instruct your stockbroker and provide details as requested from your personalised Entitlement and Acceptance Form. You should allow sufficient time for your instructions to be carried out by your stockbroker.

Entitlement trading on ASX starts at 10.00am (Sydney time) on 11 August 2017 (ASX code: YALR) and ceases on close of trading (Sydney time) on 18 August 2017.

Prices obtainable for Entitlements may rise and fall over the Entitlement Offer trading period and will depend on many factors including the demand for and supply of Entitlements on ASX and the value of Shares relative to the Offer Price. If you sell your Entitlement in the Entitlement Offer trading period, you may receive a higher or lower price than an Eligible Shareholder who sells their Entitlement at a different time in the Entitlement Offer trading period or through the Entitlement Offer Bookbuild. You may incur brokerage costs if you choose to sell your Entitlement on ASX. There is no guarantee that there will be a liquid market in traded Entitlements. A lack of liquidity may impact your ability to sell your Entitlement on ASX and the price you may be able to achieve.

The Company assumes no responsibility and disclaims all liability (to the maximum extent permitted by law) to you if you trade your Entitlement before the Entitlements are allotted, or before you receive your personalised Entitlement and Acceptance Form, whether on the basis of confirmation of the allocation provided by the Company or the Registry or otherwise.

If you wish to sell part of your Entitlement on ASX and renounce the balance, follow the procedures above in respect of the part of your Entitlement you wish to sell on ASX, and do nothing in respect of the balance. You will receive the Entitlement Offer Premium (if any) (net of expenses and any withholdings required by law) in respect of those renounced Entitlements offered for sale through the Entitlement Offer Bookbuild.

If you sell your Entitlement, you will forgo any exposure to increases or decreases in the value of the New Shares had you taken up that Entitlement. Your percentage shareholding in the Company will also be diluted.

***If you wish to transfer all or part of your Entitlement other than on ASX***

If you wish to transfer all or part of your Entitlement other than on ASX, you must return a completed Renunciation and Transfer Form together with your personalised Entitlement and Acceptance Form and the transferee's Application Monies to the Registry in relation to the part of your Entitlement that you wish to transfer.

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<sup>60</sup> Unless extended. The Entitlement Offer timetable is subject to variation.

<sup>61</sup> Note that BPAY® payments can only be made in A\$.

If you hold issuer sponsored securities, you can obtain a Renunciation and Transfer Form through the Company's Offer Information Line on 1300 059 020 (within Australia) or +61 3 9415 4292 (from outside Australia) at any time from 9.00am to 5.00pm (Sydney time) Monday to Friday during the Offer Period. The Renunciation and Transfer Form together with Application Monies and your personalised Entitlement and Acceptance Form must be received by the Registry at the following address:

Computershare Investor Services Pty Limited  
GPO Box 505  
Melbourne, Victoria  
3001 Australia,

by no later than 5.00pm (Sydney time) on 25 August 2017 (or 22 August if paying by cheque, bank draft or money order, or otherwise as permitted by the Company).<sup>62</sup> If the Registry receives both a completed Renunciation and Transfer Form and an application for New Shares in respect of the same Entitlement, the transfer will be given effect in priority to the application.

If you hold broker/CHESS sponsored securities, you should request a Renunciation and Transfer Form from your stockbroker.

If you wish to transfer part of your Entitlement and renounce the balance, follow the procedures above in respect of the part of your Entitlement you wish to transfer, and do nothing in respect of the balance. You will receive the Entitlement Offer Premium (if any) in respect of those renounced Entitlements through the Entitlement Offer Bookbuild (net of any expenses and any withholdings required by law).

Prices obtainable for Entitlements other than on ASX will likely differ from those quoted on ASX from time to time over the Entitlement Offer trading period. If you sell your Entitlements in the Entitlement Offer trading period other than on ASX, you may receive a higher or lower price compared to a shareholder who sells their Entitlements on ASX or at a different time in the Entitlement Offer trading period on ASX, or to a different person or through the Entitlement Offer Bookbuild.

If you sell your Entitlement, you will forgo any exposure to increases or decreases in the value of the New Shares had you taken up that Entitlement. Your percentage shareholding in the Company will also be diluted.

You may only transfer your Entitlement in this way to a purchaser whose address is, if a retail investor, in Australia or New Zealand and, if an institutional investor, is in the jurisdictions contemplated in the 'Selling Restrictions' contained in Section 8.6, or who otherwise meets the Eligibility Criteria (other than in respect of being a holder of an Entitlement) . Persons in the United States and persons acting for the account or benefit of a person in the United States will not be eligible to purchase Entitlements on ASX or take up Entitlements purchased on ASX or otherwise. You should inform any transferee of these restrictions.

#### ***Payment of application monies is US\$ or A\$***

Applicants can pay for New Shares or Additional New Shares in A\$ or US\$. If you apply in A\$, the Application Monies you submit will be converted to US\$ at the spot rate prevailing on the Entitlement Offer closing date (being 25 August 2017). The spot exchange rate of A\$ to US\$ at 7pm on 31 July 2017 was 0.80. Accordingly, if you apply for New Shares or Additional New Shares in A\$, you will be taken to have applied for that number of New Shares and/or Additional New Shares equal to your US\$ Equivalent Amount divided by the Offer Price (subject to rounding). For the avoidance of doubt, if you apply for your full Entitlement, pay your Application Monies in A\$ and the above currency conversion results in an excess of Application Monies such excess will be deemed to constitute an Application for such number of Additional New Shares as is equal to the excess divided by the Offer Price. If the above currency conversion results in the Application Monies received being less than the amount required to pay for the Entitlements applied for the application will be deemed to constitute an Application for such number of Entitlements as is equal to the amount received following the currency conversion divided by the Offer Price.

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<sup>62</sup> Unless extended. The Entitlement Offer timetable is subject to variation.

Holders who have paid for New Shares are unable to further trade their entitlements

### ***Value of renounced Entitlements***

If you choose not to sell or take up all or part of your Entitlement, you still have the potential opportunity to receive payment for your Entitlement or the part of your Entitlement not taken up (i.e. renounced by you).

Those Shareholders who are Ineligible Shareholders may also have the opportunity to receive payment for the Entitlement they would otherwise have received had they been eligible to participate in the Entitlement Offer.

The Company will arrange for the Entitlements of Renouncing Shareholders (or, in the case of Ineligible Shareholders, the Entitlements which would otherwise have been available to them) to be offered for subscription to certain institutional investors through the Entitlement Offer Bookbuild and any Entitlement Offer Premium will be remitted to those Renouncing Shareholders and Ineligible Shareholders in proportion to the number of New Shares represented by their renounced Entitlements (or, in the case of Ineligible Shareholders, in proportion to the number of Entitlements that they would have been entitled to had they been eligible to participate in the Entitlement Offer) (net of any expenses and any withholdings required by law).

No assurance or guarantee can be given as to the price that will be achieved under the Entitlement Offer Bookbuild from the sale of Entitlements. If the price achieved under the Entitlement Offer Bookbuild does not exceed the Offer Price, no distribution will be made to Renouncing Shareholders or Ineligible Shareholders.

The ability to sell Entitlements in respect of New Shares through the Entitlement Offer Bookbuild will be dependent on various factors including market conditions. Similarly, the Entitlement Offer Bookbuild price may not be the highest price offered but will be determined by agreement between the Joint Lead Managers and the Company (each acting reasonably having regard to the outcome of the Entitlement Offer Bookbuild), provided that (i) the Entitlement Offer Bookbuild price will not be set higher than the Offer Price unless the Joint Lead Managers have received binding bona fide offers from institutional investors that, in the reasonable opinion of the Joint Lead Managers, will (if accepted) result in allocations to dispose of all New Shares offered for sale through the Entitlement Offer Bookbuild at a price higher than the Offer Price and (ii) the Entitlement Offer Bookbuild price may not be higher than the price that would 'clear' the book.

To the maximum extent permitted by law, the Company, the Joint Lead Managers, and their respective related bodies corporate, agents or affiliates, or the directors, officers, employees or advisers of any of them, disclaim all liability, including for negligence, for any failure to procure applications for New Shares under the Entitlement Offer Bookbuild at a price in excess of the Offer Price (or at all). The Entitlement Offer Premium (if any) (net of expenses and any withholdings required by law) will be paid to Renouncing Shareholders and Ineligible Shareholders in Australian dollars. If applicable, you will be paid by cheque sent by ordinary post to your address as recorded by the Registry. There is no guarantee that the Joint Lead Managers will be able to sell all (or any) renounced Entitlements (or New Shares) or that any Entitlement Offer Premium will be realised from any such sales.

Depending on your circumstances, any Entitlement Offer Premium you may receive as a result of the Entitlement Offer Bookbuild may have Australian and/or overseas tax consequences for you. You should seek professional tax advice regarding the taxation of any proceeds received.

Eligible Shareholders should note that if you choose to renounce all or part of your Entitlement, then your percentage shareholding in the Company will be diluted to the extent of your non-participation in the Entitlement Offer.

## **1.9 Payment methods for the Entitlement Offer**

### ***Payment by BPAY®<sup>63</sup>***

For payment by BPAY® (which must be made in A\$ only), please follow the instructions on the personalised Entitlement and Acceptance Form attached to this booklet (which includes the biller code and your unique Customer Reference Number (**CRN**)). You can only make a payment via

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<sup>63</sup> Note that BPAY® payments can only be made in A\$.

BPAY® in A\$, and if you are the holder of an account with an Australian financial institution that supports BPAY® transactions. Please note that should you choose to pay by BPAY®:

- you do not need to submit the personalised Entitlement and Acceptance Form but are taken to have made the declarations on that personalised Entitlement and Acceptance Form; and
- if you do not pay for your full Entitlement, you are deemed to have taken up your Entitlement in respect of such whole number of New Shares as is covered in full by your Application Monies.

When completing your BPAY® payment, please make sure to use the specific biller code and unique CRN provided on your personalised Entitlement and Acceptance Form. If you receive more than one personalised Entitlement and Acceptance Form (i.e. where you have multiple holdings), please only use the CRN specific to the Entitlement on that form. If you inadvertently use the same CRN for more than one of your Entitlements when paying by BPAY®, you will be deemed to have applied only for New Shares on the Entitlement to which that CRN applies and your applications in respect of your other CRNs will be deemed to have not been supported by cleared funds.

Should you choose to pay by BPAY®<sup>64</sup> it is your responsibility to ensure that your BPAY® payment is received by the Registry by no later than 5.00pm (Sydney, Australia time) on 25 August 2017. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. The Company takes no responsibility for any failure to receive Application Monies or payment by BPAY® before the Entitlement Offer closes arising as a result of, among other things, delays in postage or processing of payments by financial institutions.

#### ***Payment by cheque, bank draft or money order***

For payment by cheque, bank draft or money order, you should complete your personalised Entitlement and Acceptance Form in accordance with the instructions on the form and return it accompanied by a cheque, bank draft or money order in Australian currency for the amount of the Application Monies, payable to '**Yancoal Entitlement Offer**' and crossed 'Not Negotiable'.

Your cheque, bank draft or money order must be:

- for US\$0.10 (or the A\$ equivalent of US\$0.10) multiplied by the number of New Shares and Additional New Shares (if any) that you are applying for; and
- drawn on an Australian financial institution or an Australian branch of a financial institution.

You should ensure that sufficient funds are held in the relevant account(s) to cover the Application Monies on the day of receipt. If the amount of your cheque, bank draft or money order for Application Monies is insufficient to pay for the number of New Shares and Additional New Shares (if any) you have applied for in your Entitlement and Acceptance Form, you will be taken to have applied for such lower number of whole New Shares and Additional New Shares (if any) as your cleared Application Monies will pay for and to have specified that number of New Shares and Additional New Shares (if any) on your personalised Entitlement and Acceptance Form.

Should you choose to pay by cheque, bank draft or money order it is your responsibility to ensure that your payment is received by the Registry by no later than 5.00pm (Sydney, Australia time) on 22 August 2017. Cash payments will not be accepted. Receipts for payment will not be issued.

#### ***Delivery of Entitlement and Acceptance Form***

To participate in the Entitlement Offer:

- If you make your payment via BPAY®, your payment must be received no later than the close of the Entitlement Offer, being 5.00pm (Sydney, Australia time) on 25 August 2017; or

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<sup>64</sup> Note that BPAY® payments can only be made in A\$.

- If you make payment via cheque, bank draft or money order, you should mail your completed personalised Entitlement and Acceptance Form together with Application Monies to:

<b>Mailing Address</b>
Yancoal Australia Ltd C/- Computershare Investor Services Pty Limited GPO Box 505 Melbourne VIC 3001

If you pay by cheque, bank draft or money order, it is your responsibility to ensure that your payment is received by the Registry by no later than 5:00pm (Sydney, Australia time) on 22 August 2017.

Entitlement and Acceptance Forms and Application Monies will not be accepted at the Company's registered or corporate offices, or other offices of the Registry.

### **1.10 No withdrawals of Applications**

You cannot withdraw your Application once it has been accepted. Cooling-off rights do not apply to an investment in New Shares or Additional New Shares under the Entitlement Offer.

The Company reserves the right to withdraw the Entitlement Offer at any time before the issue of New Shares or Additional New Shares to Eligible Shareholders, in which case the Company will refund any Application Monies already received in accordance with the Corporations Act and will do so without interest being payable to applicants.

### **1.11 Confirmation of your Application and managing your holding**

You may access information on your holding, including your Record Date balance and the issue of New Shares or Additional New Shares under this Entitlement Offer, and manage the standing instructions the Registry records on your holding on the Investor Centre website [www-au.computershare.com/Investor](http://www-au.computershare.com/Investor). To access the Investor Centre you will need your Security Reference Number (**SRN**) or Holder Identification Number (**HIN**) as shown on your Issuer Sponsored / CHESS statements and you will need to pass the security challenge on the site.

### **1.12 General information in relation to the Entitlement Offer and this booklet**

The Entitlement Offer is not being made under a prospectus or product disclosure statement. Rather, the Entitlement Offer is being made pursuant to provisions of the Corporations Act which allow rights issues and related issues to be made by providing certain confirmations to the market on the basis that all information that investors and their professional advisers would reasonably require to make an informed investment decision in relation to the Entitlement Offer, when read with this booklet and the accompanying information, is publicly available.

This booklet does not contain all of the information which may be required in a prospectus or product disclosure statement. As a result, it is important for Eligible Shareholders to carefully read and understand the information on the Company and the Entitlement Offer made publicly available, prior to deciding whether to take up all or part of their Entitlement, sell or transfer all or part of their Entitlement or do nothing in respect of their Entitlement. In particular, please read this booklet in its entirety, the Company's interim and annual reports and other announcements made available at [www.asx.com.au](http://www.asx.com.au) or [www.yancoal.com.au](http://www.yancoal.com.au).

Please consult with your stockbroker, accountant, financial adviser, taxation adviser or other independent professional adviser if you have any queries or are uncertain about any aspects of the Entitlement Offer or the information in this booklet. You should also refer to the 'Risks' in Section 4 of this booklet.

An investment in New Shares and Additional New Shares (if applicable) is subject to investment and other known and unknown risks, some of which are beyond the control of the Company and the Directors, including possible loss of income and principal invested. The Company does not



guarantee any particular rate of return or the performance of the Group, nor does it guarantee the repayment of capital from the Company or any particular tax treatment.

### **1.13 Issue of New Shares and Additional New Shares**

New Shares and Additional New Shares under the Entitlement Offer are expected to be issued on or around 31 August 2017 (subject to variation at the discretion of the Company, with the consent of the Joint Lead Managers). Fractional entitlements to New Shares or Additional New Shares (as the case may be) will be rounded up to the nearest whole number of New Shares or Additional New Shares (as the case may be).

The Company reserves the right (in its absolute discretion) to reduce the number of New Shares or Additional New Shares (as the case may be) allocated to Eligible Shareholders, or persons claiming to be Eligible Shareholders, if their claims prove to be overstated or otherwise incorrect or if they fail to provide information to substantiate their claims (and the Company, in consultation with the Joint Lead Managers, also reserves the right to scale back applications for Additional New Shares above an Eligible Shareholder's Guaranteed Allocation having regard to all relevant circumstances, including an Eligible Shareholder's underlying Shareholding at the Record Date).

### **1.14 ASX quotation**

The Company has applied to ASX for the grant of official quotation of the Shares to be issued under the Offer. It is expected that normal trading on ASX will commence in relation to the Shares to be issued under the Offer on 1 September 2017. The Company will have no responsibility and disclaims all liability (to the maximum extent permitted by law, including for negligence) to persons who trade Shares to be issued under the Offer before they are quoted on ASX or before they receive their confirmation of issue, whether on the basis of confirmation of the allocation provided by the Company, the Registry, the Joint Lead Managers or otherwise. ASX accepts no responsibility for any statement in this booklet.

### **1.15 Application Monies**

Until New Shares are issued, the Company will hold the Application Monies in a bank account(s) in Australia. The account(s) will be established and kept solely for the purpose of depositing Application Monies and retaining those funds for as long as required.

Any interest accrued on Application Monies will not be paid to the relevant Eligible Shareholder, including if the Entitlement Offer is cancelled or withdrawn.

### **1.16 Taxation implications**

Shareholders should be aware that there may be taxation implications of participating in the Entitlement Offer and subscribing for New Shares or Additional New Shares. The taxation consequences of participating in the Entitlement Offer and/or acquiring New Shares or Additional New Shares may vary depending on the individual circumstances of each Shareholder.

Please refer to Section 6 of this booklet for a general discussion of the Australian tax consequences of the Entitlement Offer for Eligible Shareholders resident in Australia and who hold their Shares on capital account.

Shareholders should consult their own professional taxation advisers to obtain advice in relation to the taxation laws and regulations applicable to their personal circumstances.

### **1.17 Risks**

There are a number of risks associated with an investment in the Company which may affect its financial performance, financial position, cash flows, distributions, growth prospects and Share price. The key risk factors are set out in Section 4 of this booklet.

## 2. About the Company

### 2.1 Introduction

The Company is an ASX-listed Australian-based coal producer which currently operates three mines and manages four others across NSW, QLD and WA, and has a near 50% interest in the Middlemount joint venture.

On completion of the Acquisition, the Company will hold, among other things, interests in a further three operating, large-scale, long-life and low-cost coal mines in the Hunter Valley region of NSW, including:

- a 67.6% interest in HVO;<sup>65</sup> and
- an 80.0% interest in Mt Thorley<sup>66</sup> and a 55.6% interest in Warkworth<sup>67</sup> (together, the Mount Thorley Warkworth operation).

Further details of the Acquisition are set out in Section 2.2 below.

Yancoal's interest in HVO will reduce to 51.0% on completion of the Glencore Transaction, which is subject to a number of conditions precedent that have not been satisfied as at the date of this booklet. Further details are set out in Section 7.12 of this booklet.

The Company's principal business activity is the production of metallurgical and thermal coal for export for use in the steel and power industries in Asian markets. The Company has a predominantly Australian management and sales team, with significant Australian and international coal industry experience. The Company is also committed to Australia, the communities in which it operates, its employees, shareholders and the environment.

The Company has become a major Australian coal producer through both organic growth and a series of corporate acquisitions. Below is a timeline of the Company's major acquisitions and divestures:

Date	Description
2004	Acquisition of 100% of Southland Mine (renamed Austar).
2009	Acquisition of 100% of Felix Resources (assets include an 80% interest in Moolarben, Yarrabee and a 60% interest in Ashton <sup>68</sup> ).
2011	Acquisition of a further 30% interest in Ashton. <sup>68</sup>
2012	Merger with Gloucester Coal (assets include a near 50% interest in Middlemount, Stratford Duralie, Donaldson <sup>68</sup> and Monash).
2014	Acquisition of the remaining 10% interest in Ashton. <sup>68</sup>
2015	Acquisition of a further 1% interest in Moolarben.
2016	Transfer of 100% of Ashton, Austar and Donaldson to Watagan. <sup>68</sup>
2017	Proposed acquisition of Coal & Allied from wholly owned subsidiaries of Rio Tinto.
2018	Proposed acquisition of MDP Tag-along Interest. Proposed sell down of 16.6% interest in HVO to Glencore. Proposed HVO JV with Glencore.

<sup>65</sup> As set out in Section 7.12 of this booklet, Yancoal's interest in HVO will reduce to 51.0% on completion of the Glencore Transaction. Completion of the Glencore Transaction is subject to a number of conditions precedent which have not been satisfied as at the date of this booklet.

<sup>66</sup> The remaining 20% interest in Mt Thorley is held by POSCO.

<sup>67</sup> The remaining interests in the Warkworth joint venture are held by MDP (as to 28.9%), Mitsubishi Materials Corporation (as to 6%) and Nippon Steel & Sumitomo Metal Corporation (as to 9.5%). The Company has a call option to purchase MDP's 28.9% interest in the Warkworth joint venture for \$230 million. This option may be exercised at any time from completion of the Acquisition to 31 December 2018. See Sections 2.8(e) and 7.1 of this booklet for further information.

<sup>68</sup> Effective on and from 31 March 2016, the Company entered into the Watagan Agreement. These arrangements involved the issue of up to US\$950 million of nine-year secured debt bonds by a newly established subsidiary of the Company, Watagan, to Industrial Bank Co., Ltd, BOCI and UNE. US\$175 million of BOCI's total subscription of US\$375 million is subject to obtaining final BOCI credit approval. If such approval is not obtained by 30 September 2017, its commitment in respect of the US\$175 million will be cancelled in full and the total amount raised under the financing will remain at US\$775 million. Under the arrangements, the Company's interests in Ashton, Austar and Donaldson were transferred to and are held by, Watagan, or through its wholly owned subsidiaries. See Section 2.4(b) of this booklet.

## 2.2 The Acquisition

As announced on 24 January 2017 and as subsequently amended on 26 June 2017, the Company has entered into a binding agreement to acquire 100% of the shares in Coal & Allied from wholly owned subsidiaries of Rio Tinto for US\$2.69 billion.<sup>69</sup> The Acquisition will result in the Company acquiring (through its ownership of the shares in Coal & Allied) Rio Tinto's interest in the HVO and MTW mines (an integrated operation of two open-cut mines located adjacent to each other in the Hunter Valley, NSW), a 36.5% interest in PWCS (the owner of a coal export terminal located at the Port of Newcastle),<sup>70</sup> as well as other coal exploration projects and landholdings. The Company intends to use the proceeds raised under the Offer to provide funding for the Acquisition.

The Company believes that the Acquisition will be transformative and will establish the Company as Australia's largest pure-play coal company. The Company also believes that Coal & Allied's high quality asset portfolio will generate substantial cash flows and allow the Company to produce premium coal products and build long-term relationships with end-users in key global markets.

The Acquisition, the MDP Tag-along Agreement and Glencore Transaction have the full support of the Company's majority shareholder, Yanzhou and Yanzhou's majority shareholder, Yankuang. Yanzhou intends to subscribe for approximately US\$1 billion of its Entitlements to assist the Company with funding the Acquisition.

Yancoal received confirmation from FIRB that the Commonwealth Government has no objections to the Acquisition on 12 April 2017. This confirmation was given on the basis of a number of non-material conditions similar to those which already apply to the Company (see Section 8.13 of this booklet for further information).

All required regulatory approvals for completion of the Acquisition have been obtained,<sup>71</sup> or waived, and the Company expects to complete the Acquisition on or around 1 September 2017.

### (a) Key benefits

Key benefits are expected to include:

- the opportunity to transform the Company into Australia's largest pure-play coal producer with majority interests in three of the ten largest thermal coal operations<sup>72</sup> in Australia (HVO, MTW and Moolarben) all of which produce high quality thermal coal products in demand with blue chip customers in North Asia;

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<sup>69</sup> US\$2.45 billion payable on completion of the Acquisition, plus US\$240 million in non-contingent royalty payments over five years from completion of the Acquisition, and a coal price linked contingent royalty. See section 7.1 for further details.

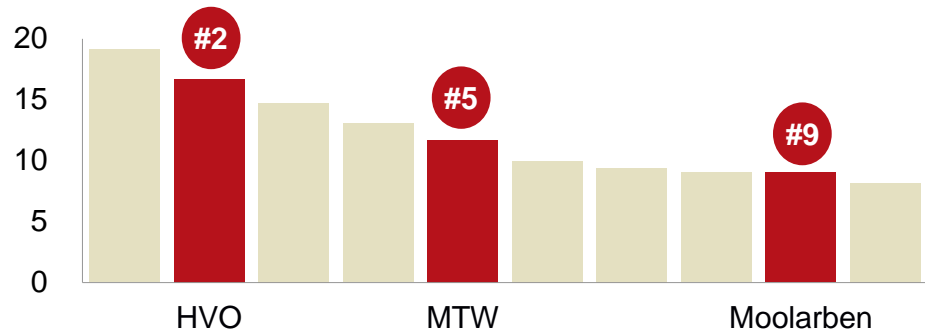
<sup>70</sup> Yancoal has agreed to transfer the shares in Newcastle Coal Shippers held by Coal & Allied and Warkworth Coal Sales to a Glencore subsidiary (Anotero) following completion of the Glencore Transaction. This will reduce Coal & Allied's interest in PWCS to 30.0%.

<sup>71</sup> The Acquisition remains conditional on approval by a resolution of Yanzhou shareholders. This approval is expected to be obtained at a meeting of Yanzhou shareholders to be held on 25 August 2017. Yankuang, which holds a majority of Yanzhou shares, has indicated that it will vote in favour of the resolution to approve the Acquisition.

<sup>72</sup> Mines where thermal coal comprises at least 50% of saleable production.

# Top 10 Australian Majority<sup>(1)</sup> Thermal Coal Mines

CY17E Saleable Production (100% basis; Mt)<sup>(2)</sup>



Source: Wood Mackenzie – Dataset: November 2016

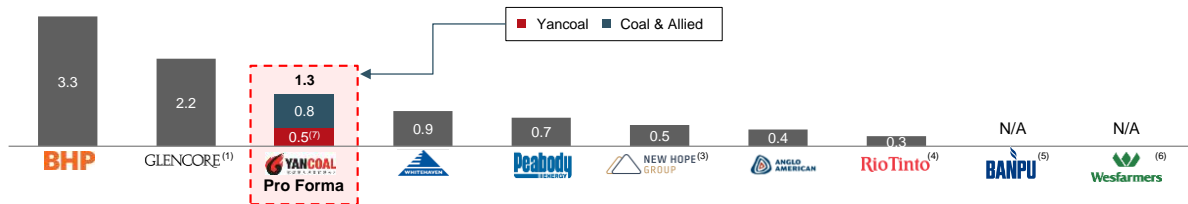
**Notes:**

- 1 Mines where thermal coal comprises at least 50% of saleable production
- 2 Includes all thermal and metallurgical coal production from the mine in CY17E

- the potential to unlock significant synergies from the integration of the Acquisition with the Company's existing portfolio, including: (i) coal blending and marketing opportunities, (ii) site, infrastructure and procurement efficiencies, and (iii) corporate and administrative cost savings, including the potential to utilise the carried forward losses in the Group;

## Marketable Coal Reserves

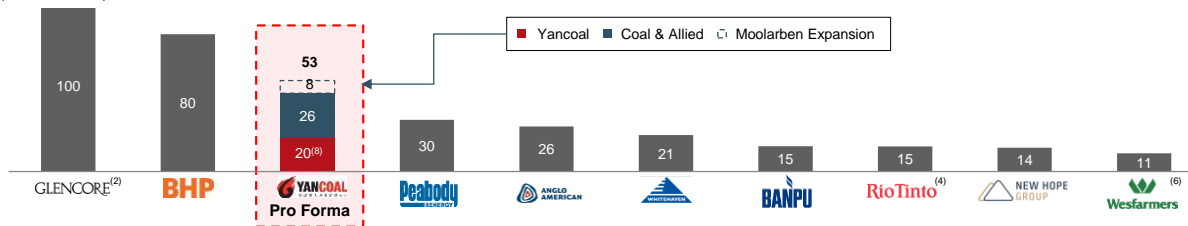
(100% basis, Bt)



Source: Wood Mackenzie – Dataset: May 2017, company filings

## CY16A Saleable Production

(100% basis, Mt)



Source: Wood Mackenzie – Dataset: May 2017, company filings

- Top 3 by reserves and production and the largest pure-play Australian coal producer

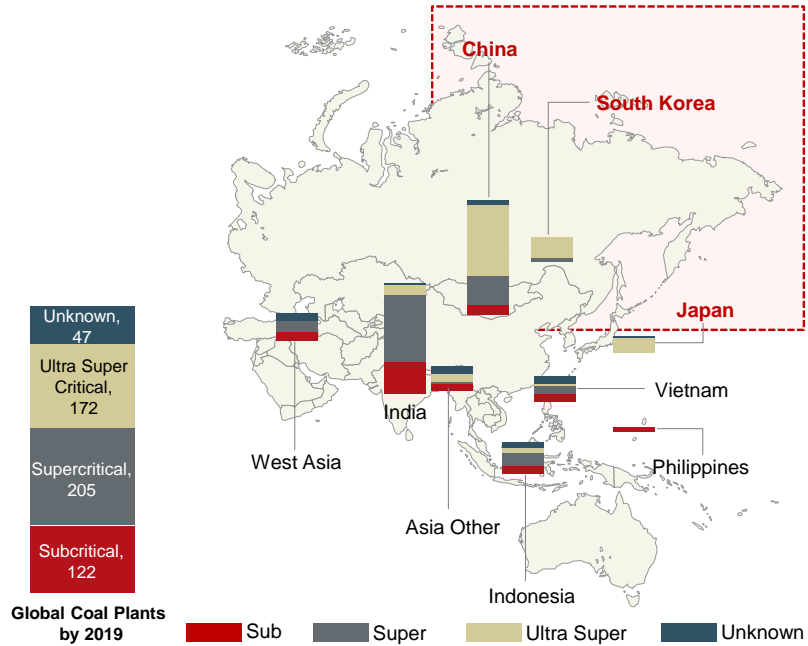
**Notes:**

- 1 Sum of Glencore's existing (1.9Bt) and 49% of HVO (0.3Bt)
- 2 Sum of Glencore's existing (93Mt) and 49% of HVO (7Mt)
- 3 Bengalla based on Rio Tinto's 2015 Annual Report (last publicly disclosed)
- 4 Exclude HVO and MTW
- 5 Do not report Marketable Coal Reserves
- 6 Excludes non-controlling interest in Bengalla
- 7 Sum of Yancoal majority owned assets, i.e. Moolarben, Yarrabee and Stratford Duralie (291Mt); Middlemount (55Mt); and Watagan, i.e. Austar, Ashton and Donaldson (128Mt)
- 8 Sum of Yancoal majority owned assets, i.e. Moolarben, Yarrabee and Stratford Duralie (113.3Mt); Middlemount (4.1Mt); Watagan, Austar, Ashton and Donaldson (2.4Mt)

- the ability for Yancoal to capitalise on the substantial build out of modern super critical and ultra-super critical generation capacity in Asia, that require high quality thermal coals consistent with the coal products supplied by Moolarben, HVO and MTW; and

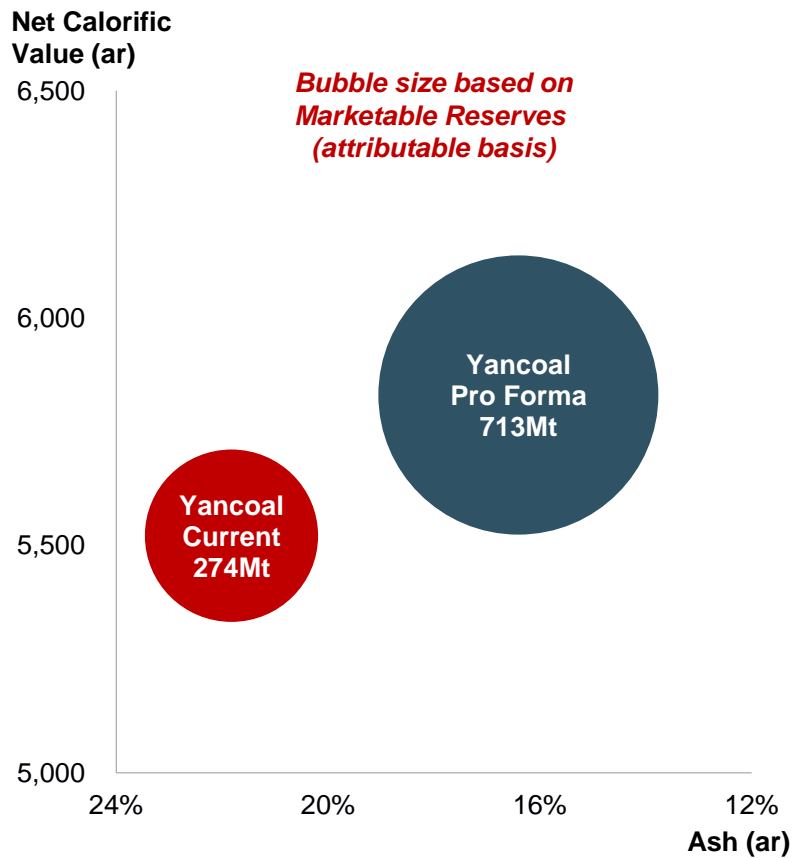
## New Coal-Fired Power Plants in Asia in 2019

New Coal-Fired Power Plant Construction is Centered in Asia, with Super Critical and Ultra Super Critical Plants a Key Focus



Source: Platts, World Coal Association, Morgan Stanley Research

## Improved Scale and Skew Towards High Quality Coal



- delivery of a sustainable capital structure (pro forma net debt<sup>73</sup> / LTM EBITDA<sup>74,75</sup> of 3.1x<sup>76</sup> as compared to 12.2x on a standalone basis) and cash flows that are expected to enable the Company to create Shareholder value.

The numbers in the table below, where relevant, have been converted from AUD to USD at an assumed rate of 0.75. See Section 3 for relevant AUD figures.

### Pro forma Capital structure

US\$ Million Unless Specified	Current	Adjustment	Pro Forma <sup>77</sup>
<b>Capital Structure (as at 30 June 2017)</b>			
<b>Net Debt<sup>78</sup></b>			
Senior Debt <sup>79</sup>	2,600	-	2,600
Shareholder Loan <sup>79</sup>	987	-	987
SCNs <sup>79,80</sup>	1,801	(1,800) <sup>81</sup>	1
Less: Cash <sup>82</sup>	(238)	(254) <sup>83</sup>	(492)
<b>Total</b>	<b>5,150</b>	<b>(2,054)</b>	<b>3,096</b>
<b>New Equity</b>			
New Shares Issued	-	2,500	2,500
SCNs Conversion	-	1,800 <sup>81</sup>	1,800
<b>Total</b>	<b>-</b>	<b>4,300</b>	<b>4,300</b>
<b>EBITDA (LTM 30 June 2017)<sup>84,85,86</sup></b>	<b>423</b>		<b>989</b>

<sup>73</sup> Net debt as at 30 June 2017, pro forma for the Coal & Allied Acquisition and Glencore Transaction and associated estimated transaction costs and stamp duty payable by Yancoal and based on a US\$:A\$ FX rate of 0.75. Net debt includes unconverted SCNs, despite SCNs being accounting and tax equity and excludes finance leases, non-contingent royalties payable for the Acquisition net of non-contingent royalties receivable for the Glencore Transaction, indebtedness associated with Watagan which is deconsolidated from the Company's financial statements and restricted cash.

<sup>74</sup> Unaudited last 12 months' EBITDA to 30 June 2017, pro forma for the Coal & Allied Acquisition and Glencore Transaction and based on a US\$:A\$ FX rate of 0.75. EBITDA includes run-rate synergies assuming Yancoal ultimately has a 51% interest in HVO, excludes incremental synergies from the Glencore Transaction and is adjusted for the before tax impact of one-off items including fair value losses recycled on hedge reserve, transaction costs (including stamp duty) and revaluation of royalty.

<sup>75</sup> Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

<sup>76</sup> Annualised based on CY17 YTD financials (as at 30 June 2017); sourced from unaudited management accounts and adjusted for run-rate synergies as described in 2.2(b)). PBT excludes non-cash hedge reversals.

<sup>77</sup> Pro forma assumes Coal & Allied Acquisition and Glencore Transaction.

<sup>78</sup> Net debt exclude finance leases, non-contingent royalty payable to Rio Tinto and potential cashflow benefit from tax losses utilisation by Yancoal pro forma.

<sup>79</sup> 30 June 2017 (unaudited) in US\$.

<sup>80</sup> SCNs have only been included as debt for this illustration given they are ranked ahead of ordinary equity and carry discretionary but cumulative distributions. If SCN distributions are unpaid, no dividend on the Shares can be paid. However, we note that SCNs are treated as equity for accounting and tax purposes.

<sup>81</sup> Yanzhou has committed to convert as many of its SCNs as is permitted, having regard to the Australian Takeovers Panel order, and this is expected to result in the conversion of all of Yanzhou's SCNs at the time that the equity raising is settled.

<sup>82</sup> 30 June 2017 (unaudited) in A\$, converted at 0.75 US\$ per A\$.

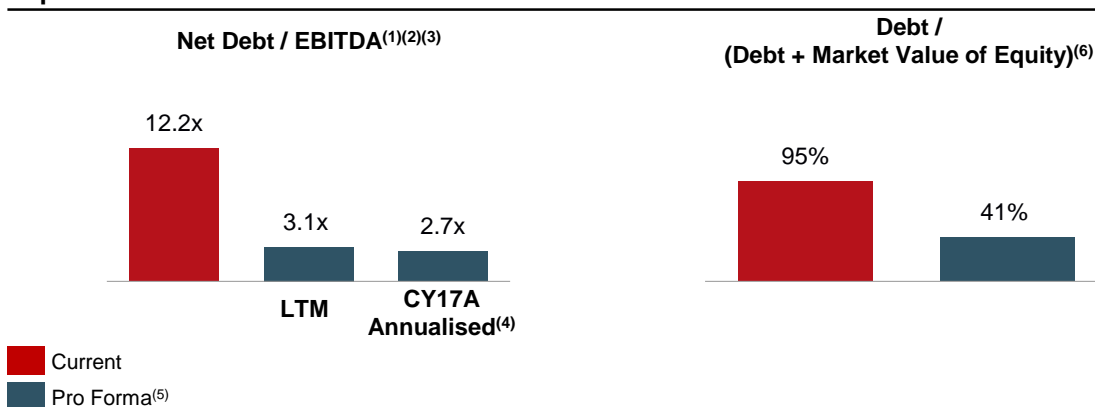
<sup>83</sup> Cash consideration from Glencore (US\$429 million) less cash use as described (US\$175 million). Cash consideration from Glencore may be used for debt repayment or other uses, however no decision has been made by Yancoal. See 'Key estimates and judgements' in Section 3.1 of this booklet.

<sup>84</sup> Net debt excludes debt bonds (current face value of US\$775 million) issued by Watagan which is deconsolidated from Yancoal's financial statements. EBITDA excludes EBITDA from Watagan which is deconsolidated from Yancoal's financial statements. See Section 2.4(b) of this booklet for more details on Watagan.

<sup>85</sup> Yancoal financial information sourced from unaudited management accounts. Yancoal pro forma include run-rate synergies identified from the Acquisition (as described in 2.2(b)). It is adjusted for 51% interest in HVO rather than 67.6% (i.e. reduction in synergies) but does not include potential incremental synergies from Glencore Transaction.

<sup>86</sup> Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

## Impact on Yancoal's Credit Metrics



### Notes:

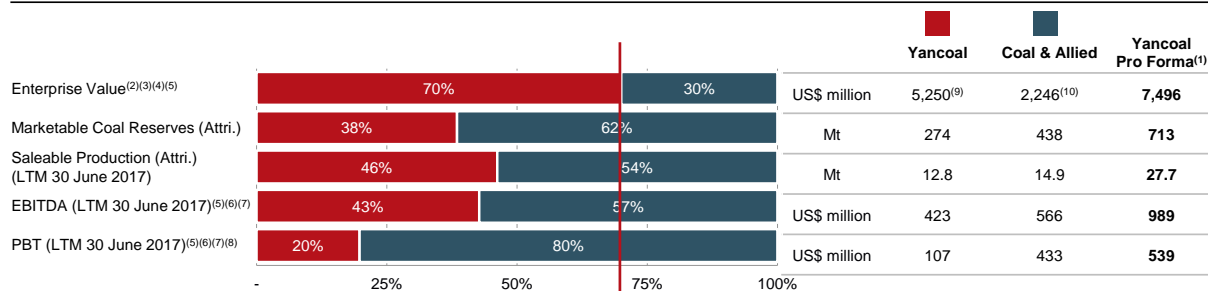
- Net debt excludes debt bonds (current face value of US\$775 million) issued by Watagan which is deconsolidated from Yancoal's financial statement. EBITDA excludes EBITDA from Watagan which is deconsolidated from Yancoal's financial statement. See Section 2.4(b) of the Entitlement Offer Booklet for more details on Watagan
- Yancoal financial information sourced from unaudited management accounts. Yancoal pro forma includes run-rate synergies identified from the Coal & Allied Acquisition (as described in Section 2.2(b)). It is adjusted for 51% interest in HVO rather than 67.6% (i.e. reduction in synergies) but does not include potential incremental synergies from Glencore Transaction
- Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information
- The 1H CY17A annualised EBITDA is not a CY17 forecast and simply reflects a doubling of 1H results. It is also normalised for one-off events (i.e. transaction costs incl. stamp duty)
- Pro Forma assumes Coal & Allied Acquisition and Glencore Transaction
- Current includes existing market cap of US\$291 million as at 31 July 2017 assuming 0.75 USD per AUD. Pro Forma market cap based on US\$0.10 per share

- accretive across key operating and financial metrics<sup>88</sup> for both participating and non-participating Shareholders in the Entitlement Offer.

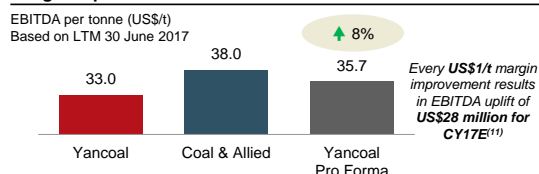
<sup>87</sup> The 1H CY17A annualised EBITDA is not a CY17 forecast and simply reflect a doubling of 1H results. It is also normalised for one-off events (i.e. transaction costs incl. stamp duty).

<sup>88</sup> Normalised for one-off items including transaction costs and stamp duty.

## 1 Accretive Transaction



## 2 Margin Improvement



### Notes:

- Pro Forma assumes Coal & Allied Acquisition and Glencore Transaction
- Net debt exclude finance leases, non-contingent royalty payable to Rio Tinto and potential cashflow benefit from tax losses utilisation by Yancoal pro forma
- Yancoal financial information sourced from unaudited management accounts. Yancoal pro forma includes run-rate synergies identified from the Coal & Allied Acquisition (as described on page 21). It is adjusted for 51% interest in HVO rather than 67.6% (i.e. reduction in synergies) but does not include potential incremental synergies from Glencore Transaction
- Yanzhou has committed to convert as many of its SCNs as is permitted, having regard to the Australian Takeovers Panel order, and this is expected to result in the conversion of all of Yanzhou's SCNs at the time that the equity raising is settled
- Net debt excludes debt bonds (current face value of US\$775 million) issued by Watagan which is deconsolidated from Yancoal's financial statement. EBITDA and PBT excludes EBITDA and PBT from Watagan which is deconsolidated from Yancoal's financial statement. See Section 2.4(b) of the Entitlement Offer Booklet for more details on Watagan
- Yancoal financial information sourced from unaudited management accounts. Yancoal pro forma includes run-

## 3 Attractive Acquisition Multiples

- Based on net acquisition price of US\$2,246 million<sup>(10)</sup>:
  - EV / Marketable Coal Reserves: US\$5.1/t
  - EV / EBITDA (LTM 30 June 2017): 4.0x
  - EV / EBITDA (1H CY17A Annualised): 3.3x<sup>(12)</sup>

- rate synergies identified from the Coal & Allied Acquisition (as described in Section 2.2(b) of the Entitlement Offer Booklet). It is adjusted for 51% interest in HVO rather than 67.6% (i.e. reduction in synergies) but does not include potential incremental synergies from Glencore Transaction
- Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information
- Adjusted for the fair value losses recycled on hedge reserve, stamp duty, transaction costs and revaluation of royalty
- Market cap based on US\$0.10 per share
- Upfront consideration payable to Rio Tinto (US\$2,450 million) plus transaction costs (US\$225 million) and less consideration received from Glencore (US\$429 million)
- Based on mid-point of Yancoal pro forma attributable saleable production guidance of 27.5Mt for CY17E
- The 1H CY17A annualised EBITDA is not a CY17 forecast and simply reflects a doubling of 1H results. It is also normalised for one-off events (i.e. transaction costs incl. stamp duty). Coal & Allied EBITDA (1H CY17A annualised) calculated as US\$1,141 million less US\$451 million

## (b) Synergies

The Company expects substantial synergies to be realised from the Acquisition. The table below lists the primary sources of synergies and estimates of their annualised benefits to the Company. These estimates assume, amongst other things, that the Company holds a 67.6% interest in HVO. The Company's interest in HVO will reduce to 51.0% on completion of the Glencore Transaction which is subject to a number of conditions precedent that have not been satisfied as at the date of this booklet. The estimated annualised benefits to the Company from synergies following completion of the Glencore Transaction is likely to be different to the estimates tabled below.

		Annualised Benefit (A\$)
<b>Coal blending and marketing</b>	<ul style="list-style-type: none"> <li>The ability to blend and better manage coal quality specifications by utilising Coal &amp; Allied's coal products with the Company's existing coal products to realise a higher overall coal product price.</li> </ul>	<ul style="list-style-type: none"> <li>Estimated at A\$25 million per annum.</li> </ul>
<b>Site, infrastructure and procurement efficiencies</b>	<ul style="list-style-type: none"> <li>Optimisation of equipment usage across the Group's operations;</li> <li>Productivity improvements across the mining value chain through adoption of best practice mining methodologies; and</li> <li>Generation of cost savings through utilisation of greater buying power and re-pricing of contracts within the Group; for example, fuel, lubricants and consumables within blasting, maintenance and washplant,</li> </ul>	<ul style="list-style-type: none"> <li>Low: Estimated at A\$60 million per annum.</li> <li>High: Estimated at A\$85 million per annum.</li> </ul>

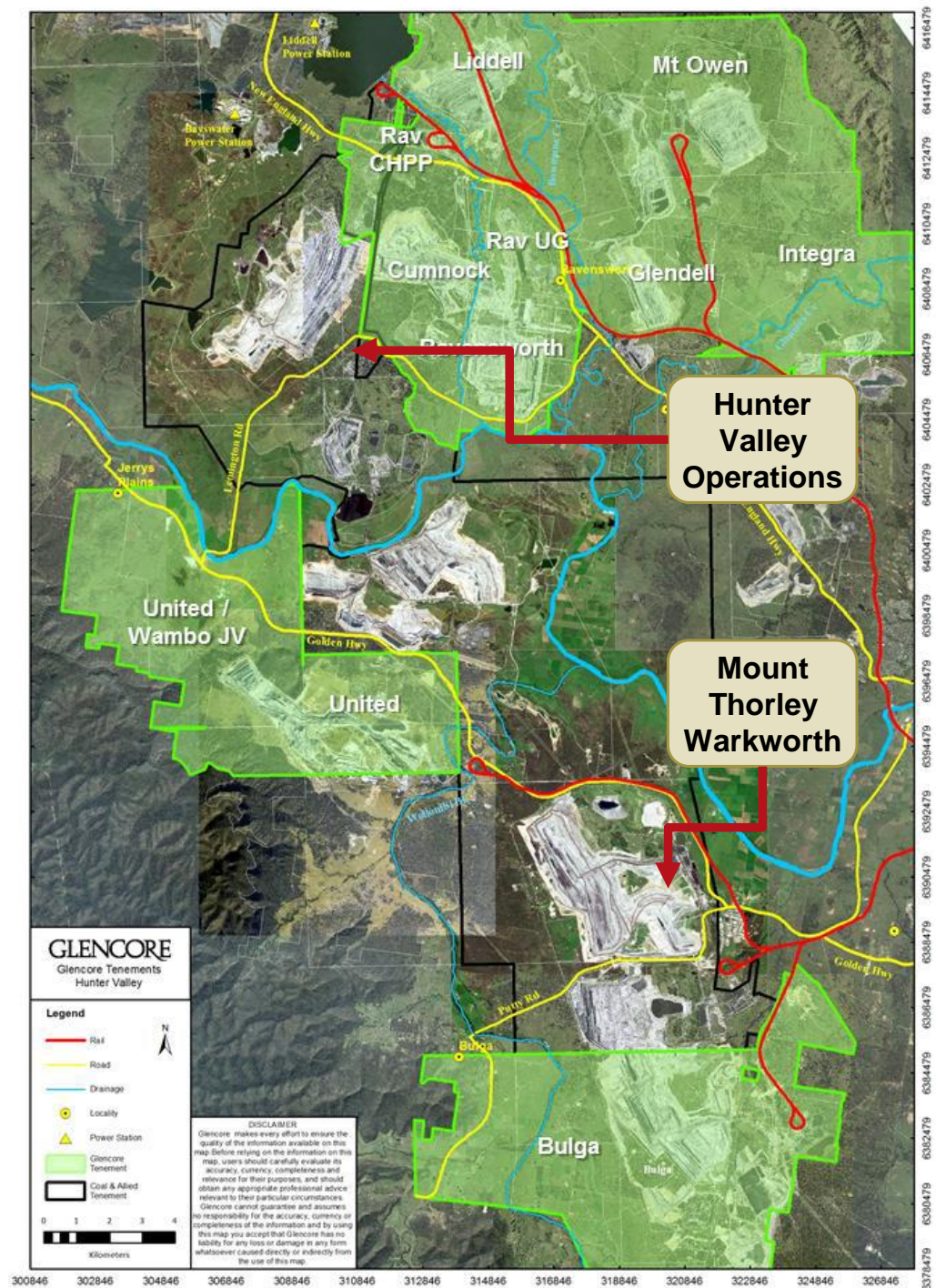


	tyres and equipment hire, amongst other things.	
<b>Corporate and administrative cost savings</b>	<ul style="list-style-type: none"> <li>The Combined Group is expected to be able to operate without duplication of corporate overheads which currently exist across both Coal &amp; Allied and the Company.</li> <li>The potential to utilise carried forward tax losses to offset future taxable profits of the Combined Group.</li> </ul>	<ul style="list-style-type: none"> <li>Estimated at A\$35 million per annum</li> <li>On a non-annualised basis, the Combined Group is estimated to have a deferred tax asset of approximately A\$1 billion in relation to carried forward tax losses. These losses may be utilised to offset tax payable on future taxable profits subject to satisfaction of the tax loss recoupment tests.</li> </ul>

Potential for significant incremental value realisation potential through the Glencore Transaction and potential interest savings on the BOC loan.<sup>89</sup>

<sup>89</sup>Interest saving on BOC loan is subject to BOC agreement

## Proximity of Glencore and Coal & Allied Assets



### (i) Adjacent mines

- Potential significant increase in marketable reserves, mine life and reduced strip ratio / costs by mining coal from barriers between mines
- Equipment optimisation across various C&A and Glencore sites
- Potential ability to capitalise on Glencore's unique integrated water and tailings management system to minimise future water infrastructure capex and reduce rehabilitation costs

- Coal blending and reduction in Take-or-Pay liabilities (through optimisation of logistics / port allocation)
- "Know how" on approvals process for ongoing mine operations and mine plan changes

**(ii) Economies of scale**

- Potential significant value may be added through Glencore's "economies of scale":
- Access to Group wide contracts for equipment replacement and parts
- Overheads and support services rationalisation
- Optimisation of insurance coverage
- Access to low cost goods and services contracts
- Access to Glencore's mining IP and technology

Achievement of the benefits in Sections 2.2(a) and 2.2(b) is subject to certain risks including those set out in Section 4 of this booklet.

## 2.3 CY17 – 1H Update and Full Year Guidance

Sustained impacts of the Queensland cyclone that occurred during the end of the March quarter 2017, beginning of the June quarter 2017, continued to positively influence metallurgical coal prices. The price for metallurgical coal subsequently returned to pre-cyclone event price levels by June.

Thermal coal prices remained mostly flat throughout the June quarter with demand continuing to be affected by Chinese oversupply and the return of Indonesian supply.

### (a) 1H17 Update

Yancoal saleable production increased to 6.5Mt in 1H17, up from 5.2Mt in 1H16. FOB cash costs excluding royalties were A\$58.7/t<sup>90</sup> for the period ended 30 June 2017.<sup>91</sup>

Strong mining conditions and previously established fleet and coal handling and processing efficiencies continued to drive production and throughput rates for the Moolarben complex. The installation of the new longwall for the Stage Two underground mine commenced in June 2017 with full production scheduled for 4Q17. The ongoing expansion of the Moolarben complex continues to be supported by the coal handling and preparation plant's approved increased feed rates (up from 13.0Mt to 13.5Mt) for 2017.

Stratford Duralie overcame recent geological challenges to achieve improved strip ratios at the base of the Clarevale open cut pit.

Yarrabee prioritised PCI coal over thermal coal in 2Q17 to maximise increased PCI market demand opportunities. This however subsequently reduced yields and production remained flat from 1H16 to 1H17.

Coal & Allied saleable production,<sup>92</sup> was 7.5Mt in 1H17, up from 7.3Mt in 1H16. <sup>93</sup> FOB cash costs excluding royalties were A\$60.9/t for the period ended 30 June 2017. <sup>94</sup>

The combined Coal & Allied operations showed steady production in 1H17 with sequencing changes occurring at both HVO and MTW following lower market demand for semi-soft coking coal and a subsequent focus on thermal coal production.

### (b) Full Year Guidance

<sup>90</sup> Includes take or pay costs on an attributable basis.

<sup>91</sup> 81% of Moolarben, 100% of Yarrabee and 100% of Stratford Duralie only. This figure does not include Middlemount, the Watagan assets (Austar, Ashton and Donaldson), Cameby Downs or Premier.

<sup>92</sup> Coal & Allied operational and financial information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

<sup>93</sup> 51% of HVO and 64% of MTW.

<sup>94</sup> Includes take or pay costs on an attributable basis, but excludes Mount Pleasant take or pay costs.

The Company's CY2017 saleable production guidance for the Yancoal operations<sup>91</sup> is between 13Mt and 14Mt with associated FOB cash costs excluding royalties between A\$57/t and A\$63/t.<sup>90</sup>

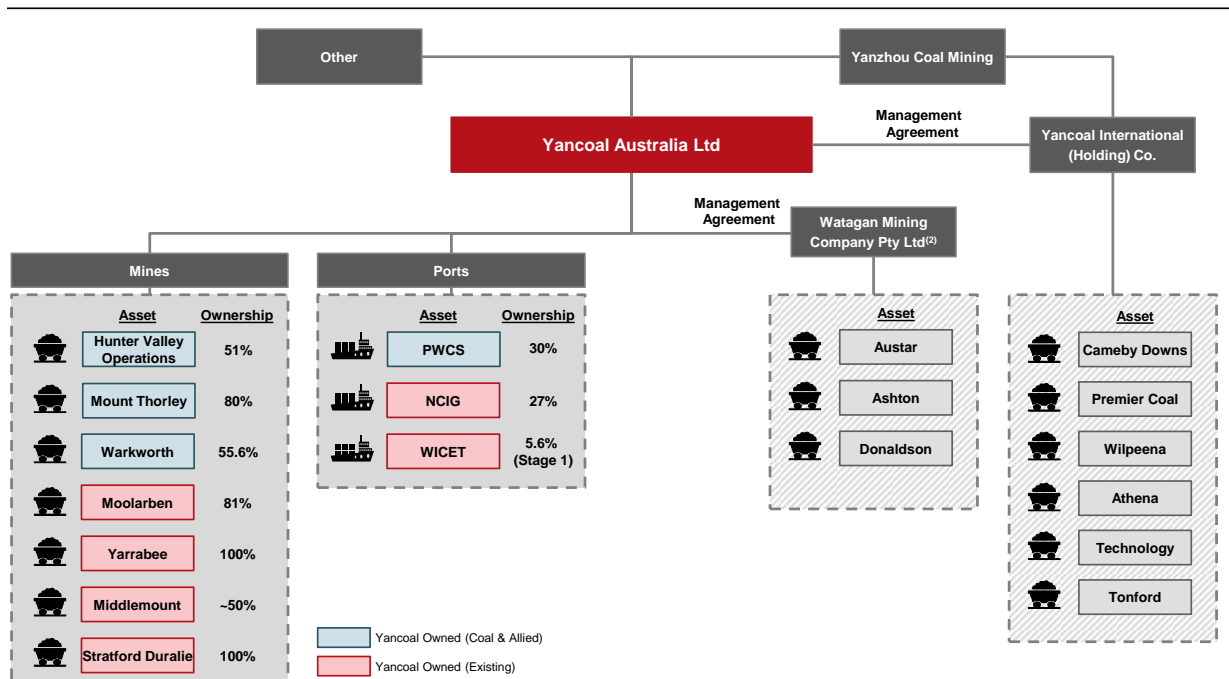
The Company's CY2017 saleable production guidance for the Coal & Allied<sup>93</sup> operations is between 14Mt and 15Mt with associated FOB cash costs excluding royalties between A\$55/t and A\$60/t.<sup>90 94.</sup>

## 2.4 The Company's operations

### (a) Overview of assets owned or managed by the Company

Assuming Completion occurs, the Company will operate a diversified portfolio of coal assets.

Yancoal Pro Forma Organisational Structure<sup>(1)</sup>



Notes:  
<sup>1</sup> Ownership on a pro forma basis for the Coal & Allied Acquisition and Glencore Transaction  
<sup>2</sup> Watagan is owned but not controlled by Yancoal Australia

### The Company:

- has an 81% interest in Moolarben in the Western Coalfields of NSW (through its joint venture with Sojitz (a subsidiary of Sojitz Corporation) and the Australian subsidiaries of a consortium of Korean companies (comprising Korea Resources Corporation, Korea Southern Power Co., Ltd, Korea Midland Power Co., Ltd, Korea Western Power Co., Ltd and Korea South-East Power Corporation). Moolarben has open cut and underground operations which produce export quality thermal coal;
- owns Stratford Duralie, the open cut mines located in the Gloucester Basin in NSW, which produce high fluidity semi-hard coking and thermal coals;
- owns Yarrabee, an open cut mine located in central QLD's Bowen Basin, which produces ultra-low volatile, semi-anthracitic PCI and thermal coals;
- has a near 50% interest in Middlemount (through its joint venture arrangements with Peabody Energy), an open cut mine located in QLD's Bowen Basin. Middlemount produces low volatile PCI coal and semi-hard coking coal used for export markets, with contracted rail and port capacity through the APCT in QLD;
- manages Comeby Downs, an open cut mine located in south-east QLD, on behalf of its majority shareholder, Yanzhou. Comeby Downs produces a low ash

export thermal coal and has port allocation through the QBH facility in Brisbane, QLD;

- manages Premier, an open cut mine located in WA on behalf of its major shareholder Yanzhou. Premier provides power generation fuel for WA's south-west integrated grid;
- holds two exploration licences, which are part of Monash, in the Hunter Valley, NSW. Renewal applications have been submitted for both tenements, with the applications currently being reviewed by the department; and
- will acquire, on completion of the Acquisition:
  - a 67.6% interest in HVO;<sup>95</sup> and
  - an 80.0% interest in Mt Thorley<sup>96</sup> and a 55.6% interest in the Warkworth<sup>97</sup> (together, the Mount Thorley Warkworth operation).

In addition to the above assets, the Company also has an equity interest in two port terminals, namely:

- a 27% interest in NCIG, located in Newcastle, NSW; and
- a 7.5% interest in WICET, located in Gladstone, QLD,

and will acquire, on completion of the Acquisition, a 36.5% interest in PWCS,<sup>98</sup> a coal export terminal located at the Port of Newcastle. This interest comprises a direct shareholding of 30%, which is held by Coal & Allied (and its subsidiaries), and an indirect shareholding of 6.5%, which is held through direct and indirect shareholdings in Newcastle Coal Shippers (which holds a 36.9% shareholding in PWCS). The shareholdings in Newcastle Coal Shippers will be transferred to a Glencore subsidiary (Anotero) on completion of the Glencore Transaction. This will reduce Coal & Allied's interest in PWCS to 30%.

The Company has also contracted port capacity entitlements at NCIG, WICET, APCT, PWCS and RGTCT.

The Company owns exploration licences, which are part of Monash in the Hunter Valley, NSW..

The Company generates its income primarily from the sale of coal to the export market. The Company receives fees in respect of management services provided by it to the Watagan group (including Austar, Ashton and Donaldson), Yancoal International on behalf of its major shareholder, Yanzhou (including Premier and Cameby Downs together with the Harrybrandt, Wilpeena and Athena exploration projects) and the Moolarben joint venture. The Company also receives interest income on loans provided to Watagan and Middlemount, together with a royalty of 4% FOBT sales from Middlemount. Further details of the operations of the Company, assuming completion of the Acquisition, are set out below.

## **(b) Arrangements with respect to Ashton, Austar and Donaldson**

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<sup>95</sup> As set out in Section 7.12 of this booklet, Yancoal's interest in HVO will reduce to 51.0% on completion of the Glencore Transaction. Completion of the Glencore Transaction is subject to a number of conditions precedent which have not been satisfied as at the date of this booklet.

<sup>96</sup> The remaining 20% interest in Mt Thorley is held by POSCO

<sup>97</sup> The remaining interests in the Warkworth joint venture are held by MDP (as to 28.9%), Mitsubishi Materials Corporation (as to 6%) and Nippon Steel & Sumitomo Metal Corporation (as to 9.5%). The Company has a call option to purchase MDP's 28.9% interest in the Warkworth joint venture for \$230 million. This option may be exercised at any time from completion of the Acquisition to 31 December 2018. See Section 2.8(e) and 7.1 for further information.

<sup>98</sup> The remaining interests in PWCS are held by Newcastle Coal Shippers (36.9%), Coal Importer Shareholders (29.5897%) and Bloomfield Group (3.4611%). The Coal Importer Shareholders are the overseas buyers of coal shipped through PWCS. The shareholders of Newcastle Coal Shippers are the owners of a number of New South Wales coal projects. Shareholders holding more than 5% (other than Coal & Allied) are Anglo Coal (Drayton Management) Pty Ltd (20.00%), Ulan Coal Mines Limited (15.9742%), Warkworth Coal Sales (11.2681%) and PWCS (8.9640%). Warkworth Coal Sales is the sales company for the Warkworth Joint Venture. Coal & Allied holds a 55.5% shareholding in Warkworth Coal Sales. Yancoal has agreed to transfer the shares in Newcastle Coal Shippers held by Coal & Allied and Warkworth Coal Sales to Glencore (Anotero) subsidiary following completion of the Glencore Transaction. This will reduce Coal & Allied's interest in PWCS to 30%.

Effective on and from 31 March 2016, the Company entered into the Watagan Agreements. These arrangements involved the issue of up to US\$950 million of nine-year secured debt bonds by a newly established subsidiary of the Company, Watagan, to Industrial Bank Co., Ltd, BOCI and UNE.

The face value of bonds currently on issue is US\$775 million. However, BOCI may elect to subscribe for an additional \$US175 million of bonds by 30 September 2017.<sup>99</sup>

In accordance with the terms of the Watagan Agreements, the Company's interests in the NSW mining assets of Ashton, Austar and Donaldson were transferred to Watagan. While Watagan is wholly owned by the Company, it was determined that under the terms of the Watagan Agreements, upon issuance of the bonds, the Group lost control of Watagan and its subsidiaries. The loss of control resulted in the Company de-consolidating the consolidated financial results of Watagan from its consolidated financial statements with effect from 31 March 2016 and from that time the Company began to equity account its equity interest in Watagan as an associate.

While Watagan is deconsolidated from the Company's consolidated financial statements for accounting purposes, Watagan (and its subsidiaries) remain within the Group's tax consolidated group as a result of the Group's ongoing 100% equity ownership of Watagan.

Watagan must redeem all outstanding bonds in 2025 on the maturity date and may elect to redeem any or all of them prior to the maturity date. Additionally, the bondholders have a put option that allows them to transfer the issued bonds at face value to Yankuang during specified put option exercise windows commencing on 1 January in each of 2019, 2021, 2023 and 2025. The bondholders may also exercise the put option after 1 January 2019 while an event of default under the bond terms is subsisting.

If the bonds are redeemed, or if Yankuang acquires all of the bonds, the Company will re-acquire control of Watagan and will reconsolidate Watagan's financial results into its consolidated financial statements from the time that control is regained, and this re-acquisition will be treated as a business combination for accounting purposes.

As part of establishing these arrangements, the Company transferred the companies which own the Ashton, Austar and Donaldson mines to Watagan. Yancoal had a loan receivable from Watagan of A\$1.36 billion for the purchase price of these mines. Watagan is permitted to make early repayments on this loan and to re-draw against such repayments. As at 31 December 2016, the loan receivable from Watagan was \$775 million (re drawable up to A\$1.36 billion). The loan is subject to accounting impairment testing. There is a guarantee provided by Yankuang to indemnify the Company for any amounts due and payable under the loan which are not paid by Watagan. When control over Watagan is regained, Watagan will be subject to business combination accounting that will require the Company to account for the assets and liabilities acquired from Watagan at fair value at the time and, could result in a deficit to the value of the loan being recognised as a financial loss.

As part of the Watagan Agreements, the Group entered into the following agreements:

- 10 year 'Management and Mine Services Agreement' appointing:
  - the Company as the exclusive provider of management services (being back office support functions) to Watagan group; and
  - Yancoal Mining Services Pty Ltd (a wholly owned subsidiary of the Company) as the exclusive provider of all mining management services (being all work directly concerned with the management of the operations of the three mines) to Watagan group.
- 10 year 'Marketing and Logistics Representation' and 'Logistics Agreement' appointing the Company as:
  - the sole and exclusive marketing and logistics representative of Watagan group for the promotion, marketing, sale, transportation and handling of all

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<sup>99</sup> US\$175 million of BOCI's total subscription of US\$375 million is subject to obtaining final BOCI credit approval. If such approval is not obtained by 30 September 2017, its commitment in respect of the US\$175 million will be cancelled in full and the total amount raised under the financing will reduce to US\$775 million.

- saleable coal produced from the three mines and the purchase of any coal for Watagan group from third parties; and
- the sole and exclusive provider of infrastructure services and representative of the Watagan group in relation to management of the port and rail access and rail haulage contracts in relation to the three mines.

These services are generally capable of termination by Watagan on six months' notice, subject to payment of an agreed termination fee.

**(c) Operating metrics of the Company, Coal & Allied and the Combined Group**

The tables below provide an overview of the Company's, Coal & Allied's and the Combined Group's (assuming completion of the Acquisition occurs) historical performance and forecast guidance (for the periods identified in the below tables) across a number of key operating metrics.

It should be noted that the forecast guidance included in the below tables is subject to known and unknown risks and uncertainties, including the risk factors in Section 4 of this booklet, that could cause actual events or outcomes to differ materially from the events or outcomes expressed or anticipated in the forecast guidance. The forecast guidance should be read in conjunction with risk factors as set out in Section 4 of this booklet, and other information contained in this booklet. The forecast guidance is not a guarantee of future performance which may be outside the control of the Company. Numerous factors may have a material adverse effect on the projected figures.

## Yancoal Australia Ltd – status quo

Operational Metrics		<u>Historical</u>				<u>Guidance</u>	
		CY14	CY15	CY16	CY17 YTD	CY17	CY18
<b>ROM Coal Production</b>	Mt	13.0	12.5	14.8	7.9	15 - 17	17 - 19
<b>Saleable Coal Production</b>	Mt	10.3	9.8	11.5	6.5	13 - 14	14 - 16
<b>FOB Cash Costs (Ex. Royalties)</b>	A\$/t (Saleable)	66.9	65.4	59.5	58.7	57 - 63	54 - 60
<b>Price Achievement</b>	A\$/t (Sales)	83.8	77.1	79.9	107.7		
<b>Product Mix</b>	% (Thermal / Met)	62 / 38	65 / 35	75 / 25	79 / 21	c. 75 / 25	c. 85 / 15
<b>Capex</b>	A\$ million	102	170	248	101	220 - 240	60 - 70
<b>Operating EBITDA</b>	A\$ million	118	74	180			

### Notes:

1. All figures relate to 81% of Moolarben, 100% of Yarrabee and 100% of Stratford Duralie only. Figures do not include Middlemount, the Watagan assets (Austar, Ashton and Donaldson), Cameby Downs, Premier or corporate.
2. Take or pay costs relating to 81% of Moolarben, 100% of Yarrabee and 100% of Stratford Duralie are included in FOB cash costs excl. royalties.
3. Product mix is calculated on a pre-blending basis.
4. CY17 YTD numbers for 6 months ending 30 June 2017. Unaudited management information.



## Coal & Allied Industries Limited

Operational Metrics		<u>Historical</u>				<u>Guidance</u>	
		CY14	CY15	CY16	CY17 YTD	CY17	CY18
<b>ROM Coal Production</b>	Mt	20.5	19.7	20.8	10.6	20 - 22	20 - 23
<b>Saleable Coal Production</b>	Mt	14.7	14.2	14.9	7.5	14 - 15	14 - 16
<b>FOB Cash Costs (Ex. Royalties)</b>	A\$/t (Saleable)	61.2	61.8	57.1	60.9	55 - 60	53 - 59
<b>Price Achievement</b>	A\$/t (Sales)	86.5	89.6	91.5	123.1		
<b>Product Mix</b>	% (Thermal / Met)	81 / 19	79 / 21	78 / 22	82 / 18	c. 80 / 20	c. 80 / 20
<b>Capex</b>	A\$ million	53	35	38	15	70 - 80	70 - 80
<b>Operating EBITDA</b>	A\$ million	223	293	403			

### Notes

1. All figures relate to 51% of HVO and 64% of MTW. Figures do not include corporate.
2. Take or pay costs relating to 51% of HVO and 64% of MTW are included in FOB cash costs excl. royalties. Mount Pleasant take or pay is excluded.
3. Product mix is calculated on a pre-blending basis.
4. The above information has been sourced from unaudited management information, Rio Tinto has not reviewed the information set out above and accepts no responsibility for that information.
5. CY17 YTD numbers for 6 months ending 30 June 2017. Unaudited management information.
6. Information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

## Combined Group

Operational Metrics		Historical				Guidance	
		CY14	CY15	CY16	CY17 YTD	CY17	CY18
ROM Coal Production	Mt	33.6	32.2	35.6	18.5	35 - 38	38 - 42
Saleable Coal Production	Mt	25.0	24.0	26.4	14.0	26 - 29	29 - 32
FOB Cash Costs (Ex. Royalties)	A\$/t (Saleable)	63.6	63.3	58.1	59.9	56 - 62	54 - 59
Price Achievement	A\$/t (Sales)	85.4	84.4	86.5	115.9		
Product Mix	% (Thermal / Met)	73 / 27	73 / 27	77 / 23	81 / 19	c. 80 / 20	c. 85 / 15
Capex	A\$ million	155	205	286	116	290 - 320	130 - 150
Operating EBITDA	A\$ million	341	367	583			

### Notes:

- All figures relate to 81% of Moolarben, 100% of Yarrabee, 100% of Stratford Duralie, 51% of HVO and 64% of MTW.
- Take or pay costs relating to 81% of Moolarben, 100% of Yarrabee, 100% of Stratford Duralie, 51% of HVO and 64% of MTW are included in FOB cash costs excl. royalties. Mount Pleasant take or pay is excluded.
- Product mix is calculated on a pre-blending basis.
- CY17 YTD numbers for 6 months ending 30 June 2017. Unaudited management information.
- Coal & Allied information has been sourced from HVO and MTW unaudited management information. Rio Tinto has not reviewed the financial information set out above and accepts no responsibility for that information.

The Company's profitability is highly sensitive to changes in the USD coal price, the USD/AUD exchange rate and the Company's coal production levels and related costs of production.

The Company produces a variety of different coal products. These coal products have various characteristics such as calorific value/energy content, moisture content, sulphur content and ash content. The prices received for the Company's coal products relative to observable benchmark prices take into account these differences in coal qualities and specifications.

The production guidance included in the above tables (for the Company, Coal & Allied and the Combined Group) are estimated based on, for 2017, June YTD annualised production, for 2018, the Company's 2016 '5 Year Plan' forecasts for its existing assets and the Company's expected performance of the Coal & Allied assets based on the Company's technical due diligence on the Coal & Allied assets.

**(d) Coal Resources and Coal Reserves**

**(i) JORC**

The statements of Coal Resources and Coal Reserves for the Company presented in this booklet have been produced in accordance with the JORC Code 2012. The information in this booklet relating to Coal Resources and Coal Reserves is based on information compiled by Competent Persons (as defined in the JORC Code 2012). All Competent Persons have sufficient experience relevant to the style of mineralisation and type of deposit under consideration, and to the activity they are undertaking, to qualify as a Competent Person.

The Company confirms that the form and context in which the Competent Person's findings are presented in respect of the Company's Coal Resources and Coal Reserves have not been materially modified from the Company's annual report for the year ended 31 December 2016, which was released to ASX on 26 April 2017.

The Company is not aware of any new information or data that materially affects the information included in the Company's annual report for the year ended 31 December 2016 and at the date of this booklet all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed.

The tabulated Coal & Allied Coal Resources and Coal Reserves are sourced from the Rio Tinto 2016 annual report (available at [www.riotinto.com](http://www.riotinto.com)). The Competent Persons responsible for Coal Resources and Coal Reserves are full-time employees of Rio Tinto.

Yanzhou recently commissioned RPM Global Holdings Limited to produce a new JORC Code 2012 report in regards to the Company's Hunter Valley coal assets as part of its reporting requirements to the Hong Kong Stock Exchange. While based on the same base data, the reported Coal Resources within the report produced are higher than those reported by Rio Tinto, while the Coal Reserves are relatively unchanged. The differences are based on a different interpretation of the same data by the Competent Person and that Coal Resources were inclusive of Coal Reserves.

Company Coal Resources are reported inclusive of Coal Reserves, with Coal Resources and Coal Reserves reported on a 100% basis with the Company's ownership percent reported for each deposit.

Coal & Allied Coal Resources are reported exclusive of Coal Reserves. The coal Resources and Coal Reserves are reported on a 100% basis with the Rio Tinto ownership percent reported for each deposit.

Commodity prices and exchange rates used to estimate the economic viability of Coal Reserves are:

- with respect to the Coal Reserves attributable to the mines owned or operated by the Company pre-Acquisition, they are based on the Company long-term pricing and market forecasts utilised in the most recent 'Life of Mine Plan' available when the JORC report was generated unless otherwise stated; and
- with respect to the Coal Reserves attributable to HVO and MTW, they are based on Rio Tinto's long-term pricing and market forecasts and scenarios as at the time when the JORC Report was generated.

There is a low level of geological confidence associated with Inferred Coal Resources and there is no certainty that further exploration work will result in the determination of Indicated Coal Resources or that the production target itself will be realised.

**(ii) Resources reported as at 31 December 2016**

Project	Ownership %	Coal type	Measured Coal Resource (Mt)	Indicated Coal Resource (Mt)	Inferred Coal Resource (Mt)	Total Coal Resources (Mt)	Competent Person
MOOLARBEN (open-cut and underground)	81	Thermal	820	240	200	1260	KP
AUSTAR (underground) <sup>100</sup>	100	Metallurgical	75	80	70	225	RD
ASHTON (open-cut & underground) <sup>100</sup>	100	SSCC / thermal	80	75	110	265	PH
YARRABEE (open-cut)	100	PCI / thermal	100	80	20	200	SW
GLOUCESTER (open-cut & underground) <sup>101</sup>	100	Metallurgical / thermal	11	195	110	316	JMB
MIDDLEMOUNT (open-cut) <sup>102</sup>	50	Metallurgical / thermal	93	34	3	130	GJ
DONALDSON (open-cut & underground) <sup>100</sup>	100	Metallurgical / thermal	190	400	100	690	RD
MONASH (underground)	100	Thermal	0	17	80	97	RD
<b>Total Coal Resources (100% basis)</b>			1369	1,121	693	3,183	
<b>Company attributable share</b>						2,879	
HVO (open-cut & underground) <sup>103</sup>	51	Metallurgical / thermal	348	571	912	1,831	RR

<sup>100</sup> See Section 2.4(b) in relation to the Watagan Agreements.

<sup>101</sup> Gloucester comprises the deposits at the Stratford and Duralie mines and the Grant & Chainey Project (located immediately to the south of Stratford Mine, in the area between the two mines) within the Gloucester Basin.

<sup>102</sup> The Middlemount JORC Code 2012 Coal Resource report was generated in March 2013. No production or other depletions have been applied to the reported Coal Resources since this report date. The reported Coal Resources are unchanged to those reported in the Company's 2016 annual report.

<sup>103</sup> As a result of a restructure of the Coal & Allied group, which completed on 3 February 2016, Rio Tinto obtained 100% ownership of Coal & Allied and retained a 67.6% interest in the newly created HVO Joint Venture, which owns HVO. The ownership shown above reflects these changes. As set out in Section 7.12 of this booklet, Yancoal's interest in HVO will reduce to 51.0% on

MT THORLEY (open-cut) <sup>103</sup>	80	Metallurgical / thermal	39	226	57	322	RR
WARKWORTH (open-cut & underground) <sup>103</sup>	55.6	Metallurgical / thermal	141	307	517	966	RR
<b>Total Coal Resources (100% basis)</b>			528	1,104	1,486	3,119	
<b>Coal &amp; Allied attributable share</b>						1,729	

Note: Coal & Allied's Coal Resources are sourced from the Rio Tinto 2016 annual report ([www.riotinto.com](http://www.riotinto.com)). The attributable share Total Coal Resources were calculated by Yancoal by applying the ownership % to the reported (100%) Total Coal Resources.

Note: The Company's reported Coal Resources are unchanged to those reported in the Company's ASX release of Coal Resource & Reserves statements for 31 December 2016.

### (iii) Reserves

Project	Ownership %	Coal Type	Total Recoverable Coal Reserves (Mt)	Total Marketable Coal Reserves (Mt)	Competent Person	Reported as at date	ROM production December 2015 to December 2016 (Mt)	Saleable production December 2015 to December 2016 (Mt)
MOOLARBEN (open-cut)	81	Thermal	205	159	JB	31 December 2016	11.9	9.1
MOOLARBEN (underground)	81	Thermal	73	73	JB	31 December 2016	0.4	0.4
AUSTAR (underground) <sup>104</sup>	100	Metallurgical	46	38	REH	31 December 2016	1.2	1.2
ASHTON (open cut) <sup>104</sup>	100	Metallurgical / thermal	15	7.8	REH	31 December 2016	0	0
ASHTON (underground) <sup>104</sup>	100	SSCC / thermal	36	20	REH	31 December 2016	2.6	1.2
YARRABEE (open-cut)	100	PCI / thermal	41	33	AL	31 December 2016	3.3	2.7
GLOUCESTER (open-cut) <sup>105</sup>	100	Metallurgical / thermal	45	26	BS	31 December 2016	1.1	0.8
MIDDLEMOUNT (open-cut) <sup>106</sup>	50	Metallurgical / PCI	73	55	MB	31 December 2016	5.3	4.0

completion of the Glencore Transaction. Completion of the Glencore Transaction is subject to a number of conditions precedent which have not been satisfied as at the date of this booklet.

<sup>104</sup> See Section 2.3(b) in relation to the Watagan Agreements

<sup>105</sup> Gloucester comprises the deposits at the Stratford and Duralie mines and the Grant & Chainey Project (located immediately to the south of the Stratford Mine, in the area between the two mines) within the Gloucester Basin.

<sup>106</sup> The Middlemount Coal Reserves report was generated on 1 January 2015. No depletions have been applied to the above reported Coal Reserves in relation to production during the period through to 31 December 2016. The project has two product types

DONALDSON (underground) <sup>104</sup>	100	Metallurgical / thermal	110	62	REH	31 December 2016	0.5	0.4
<b>Total Coal Reserves (100% basis)</b>			644	474				
<b>Company attributable share</b>			555	402				
HVO (open-cut)	51	Metallurgical / thermal	871	616	MH	31 December 2016	18	13.6
MT THORLEY (open-cut) <sup>Error!</sup> Bookmark not defined.	80	Metallurgical / thermal	19	12	AP	31 December 2016	18.1	12.3
WARKWORTH (open-cut) <sup>Error!</sup> Bookmark not defined.	55.6	Metallurgical / thermal	308	206	AP	31 December 2016		
<b>Total Coal Reserves (100% basis)</b>			1,198	834				
<b>Coal &amp; Allied attributable share</b>			631	438				

Note: Coal & Allied's Coal Reserves are sourced from Rio Tinto's 2016 annual report ([www.riotinto.com](http://www.riotinto.com)). The attributable share Coal Reserves were calculated by Yancoal by applying the ownership % to the reported (100%) Coal Reserves.

Note: The Company's reported Coal Reserves are unchanged to those reported in the Company's ASX release of Coal Resource & Reserves statements for 31 December 2016.

Note: Reported Coal Resources and Coal Reserves have been collated from the Company's annual reports. The production values tabulated are also collated from these reports and relate to production since the previous annual reports (31 December 2015 to 31 December 2016).

#### (iv) Competent Persons

Project	Report type	Competent Person	Initials	Title	Company
MOOLARBEN	Resource	Karol Patino	KP	Senior Geologist	McElroy Bryan Geological Services Pty Ltd
	Reserve	Jon Barber	JB	Principal Consultant	Jon Barber Mining Consultants
AUSTAR	Resource	Rob Dyson	RD	General Manager Operations	McElroy Bryan Geological Services Pty Ltd
	Reserve	Raymond Howard	REH	Principal Mining Engineer	Yancoal Australia Ltd
ASHTON	Resource	Paul Harrison	PH	Senior Geologist	McElroy Bryan Geological Services Pty Ltd
	Reserve	Raymond Howard	REH	Principal Mining Engineer	Yancoal Australia Ltd
YARRABEE	Resource	Stuart Whyte	SW	Superintendent Geology and Exploration	Yancoal Australia Ltd
	Reserve	Andrew Lau	AL	Regional Technical Services Manager – Open	Yancoal Australia Ltd

for Marketable Coal Reserves each with a different moisture basis, coking of 10.5% and 9% for PCI and ash of 9.8% for coking and 10.8% for PCI.

				Cut Operations Eastern Region	
GLOUCESTER	Resource	Janet Bartolo	JMB	Manager Geological Modelling	McElroy Bryan Geological Services Pty Ltd
	Reserve	Ben Smedley	BS	Principal Mining Engineer	XENITH Consulting Pty Ltd
MIDDLEMOUNT	Resource	Greg Jones	GJ	Principal Consultant	JB Mining Services Pty Ltd
	Reserve	Mark Bryant	MB	Principal Mining Consultant	The Minserve Group Pty Ltd
DONALDSON	Resource	Rob Dyson	RD	General Manager Operations	McElroy Bryan Geological Services Pty Ltd
	Reserve	Raymond Howard	REH	Principal Mining Engineer	Yancoal Australia Ltd
MONASH	Resource	Rob Dyson	RD	General Manager Operations	McElroy Bryan Geological Services Pty Ltd
HVO	Resource	R Ruddock	RR	Resource & Geology Manager	Rio Tinto
	Reserve	M Hillard	MH	Senior Mining Engineer	Rio Tinto
MT THORLEY	Resource	R Ruddock	RR	Resource & Geology Manager	Rio Tinto
	Reserve	A Prentice	AP	Principal Mining Engineer	Rio Tinto
WARKWORTH	Resource	R Ruddock	RR	Resource & Geology Manager	Rio Tinto
	Reserve	A Prentice	AP	Principal Mining Engineer	Rio Tinto

## 2.5 Mining operations

### (a) New South Wales mines

#### (i) Stratford Duralie

Stratford Duralie produces high fluidity semi-hard coking and thermal coals, located within the Gloucester Basin of NSW.

Commencing production in June 1995, the operation moved to a single open cut pit following the cessation of production at the Stratford open cuts Bowen Road North Pit in July 2014. Duralie coal continues to be processed at the Stratford Coal Handling and Preparation Plant.

As announced on 1 June 2015, the NSW Planning Assessment Commission approved the Stratford extension project. The project has the potential to extract up to 21.5Mt of ROM coal over 11 years at a rate of up to 2.6Mtpa. Development of the project is subject to market conditions.

Rehabilitation of the Stratford mine was conducted in accordance with the approved mining operations plan.

Ongoing geological challenges within the Stratford Duralie open cut mining area affected production performance throughout 2016, resulting in a redesign of the mine plan and adjustments to operating conditions in the second half of that year. The interruptions to mining resulted in total ROM coal production of 1.2Mt (2015: 1.9Mt and saleable coal production of 0.9Mt (2015: 1.4Mt).

<b>Stratford Duralie Production</b>	<b>Units</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Saleable coal production	Mt	2.3	2.0	1.4	0.9

Note: All data shown on a 100 percent basis.

**(ii) Moolarben**

Located within the Western Coalfields of NSW, Moolarben is a world-class open cut and underground coal asset which has been operating since 2010. The Moolarben complex produces export quality thermal coal.

The Company holds an 81% interest in, and is the manager of, Moolarben (through its joint venture with Sojitz (10%) (a subsidiary of Sojitz Corporation) and the Australian subsidiaries of a consortium of Korean companies (comprising Korea Resources Corporation, Korea Southern Power Co., Ltd, Korea Midland Power Co., Ltd, Korea Western Power Co., Ltd and Korea South-East Power Corporation (collectively holding 9%).

Operations comprise an open cut pit and an underground longwall operation (longwall to begin operation in Q4, 2017), all producing export quality thermal coal.

Construction of stage two has progressed in accordance with project targets, with first development coal from the new underground mine commencing in April 2016 and first longwall coal is expected in November 2017. Extraction of first coal from the stage two open cut box cut occurred in July 2016. Once stage one and stage two are fully developed, Moolarben has planning approval to produce up to 21Mt of ROM coal per annum for a period of 21 years.

In 2016, Moolarben achieved total ROM production of 12.2Mt (2015: 9.0Mt) and saleable coal production of 9.3Mt (2015: 6.9Mt).

<b>Moolarben Production</b>	<b>Units</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Saleable coal production	Mt	6.3	6.4	6.9	9.3

Note: All data shown on a 100 percent basis.

**(iii) Hunter Valley Operations (HVO)**

HVO is an open cut mine located 24 kilometres north-west of Singleton in the Hunter Valley Basin of NSW. HVO is operated as an unincorporated joint venture and produces a mixture of thermal and semi-soft coking coal for export to international markets. HVO has underground expansion potential, subject to further investment by the Company, among other things.

HVO is an amalgamation of three previously independent mining operations, namely: Howick, Hunter Valley No.1 and Lemington.

Coal production at Howick began in 1968 (with mining in the area around Howick commencing in 1949). Lemington began coal production in 1971. Hunter Valley No. 1 began coal production in 1979. In 2000, Coal & Allied merged Howick and Hunter Valley No.1 to create 'HVO', and in 2001, Lemington, was acquired and merged with these two mines.

HVO is a multi-pit open cut mine, using dragline, and truck and shovel methods.

ROM coal is processed through two on-site coal preparation plants to produce a semi-soft coking coal and low, medium and high ash thermal coal for the export market. Product coal is railed through the Hunter Valley rail network to the PWCS loading terminal at Newcastle.



On completion of the Acquisition, the Company will manage HVO and own 67.6% of HVO.<sup>107</sup>

Hunter Valley					
Operations Production	Units	2013	2014	2015	2016
Saleable coal production	Mt	13.6	13.9	13.0	13.6

Note: All data shown on a 100 percent basis

(iv) **Mount Thorley Warkworth operation (MTW)**

MTW is an integrated operation of two open cut mines located adjacent to each other 15 kilometres south-west of Singleton in the Hunter Valley of NSW. Coal produced is exported to international markets as either semi-soft coking coal or thermal coal.

Both Mount Thorley and Warkworth have been in operation since 1981. Coal & Allied became manager of Mount Thorley in 1989, and in 2001, Coal & Allied purchased an interest in Warkworth. In January 2004, the two mines were integrated to realise operational and mine planning efficiencies by entering into an operational integration agreement that allowed the operations to be managed together.

MTW operates through multiple pits, using dragline, and truck and shovel methods, which operate 24 hours a day, seven days a week.

Similar to HVO, ROM coal is processed through two on-site coal preparation plants to produce semi-soft coking coal and low, medium and high ash thermal coal for the export market. Product coal is railed through the Hunter Valley rail network to the PWCS loading terminal at Newcastle.

On completion of the Acquisition, the Company will manage MTW and own 80% of Mount Thorley and 55.6% of Warkworth.

Mount Thorley					
Warkworth Production	Units	2013	2014	2015	2016
Saleable coal production	Mt	12.5	11.9	11.7	12.3

Note: All data shown on a 100 percent basis

(v) **Ashton, Austar and Donaldson**

**Ashton**

Located in the Upper Hunter Valley region of NSW, Ashton is an underground mine which produces semi-soft coking coal for export through the Port of Newcastle. Product coal is sold to a number of Asian based steel mills.

The Ashton operation includes an operating underground mine, an approved open cut project (the 'South East Open Cut', development of which has not yet commenced), coal handling and preparation plant and a rail siding.

As announced to ASX on 20 November 2015, while the NSW Land and Environment Court granted approval for the Ashton south east open cut project on 27 August 2014, the NSW Court of Appeal determined to uphold a condition attached to the Ashton south east open cut project approval. The condition provides that no development work associated with the project can occur until Ashton Coal Operations Pty Ltd has come to a commercial arrangement with respect to a privately owned property, whose property forms part of the proposed mining area. No such arrangement has been agreed to date.

<sup>107</sup> As set out in Section 7.12 of this booklet, Yancoal's interest in HVO will reduce to 51.0% on completion of the Glencore Transaction. Completion of the Glencore Transaction is subject to a number of conditions precedent which have not been satisfied as at the date of this booklet.

The proposed south east open cut project has the potential to produce up to 3.6Mtpa of ROM coal.

On 20 June 2016, the NSW Planning Assessment Commission granted approval for the Ashton 'Mod 5' (integration modification). The modification enables Ashton to increase underground production up to 5.45Mtpa ROM and contemporises the existing conditions at Ashton.

Ashton achieved total ROM coal production of 2.4Mt million tonnes (2015: 3.0Mt) and 1.1Mt of saleable coal production (2015: 1.4Mt) in 2016.

Ashton Production	Units	2013	2014	2015	2016
Saleable coal production	Mt	1.3	1.3	1.4	1.1

Note: All data shown on a 100 percent basis.

### **Austar**

Austar is one of the oldest mines in NSW, having been in operation for 100 years. Located south-west of Cessnock in the Newcastle Coalfields, Austar produces a premium semi-hard coking coal characterised as the highest fluidity and lowest ash coking coal in Australia, with low phosphorous and low alkalis. The coal is shipped through the Port of Newcastle.

The Company purchased the mine in December 2004, changing its name to Austar in the process.

Austar's development coal production rates throughout 2016 were buoyed by significant improvements in longwall production during the second half, to achieve total ROM coal production of 1.2Mt (2015: 0.8Mt) and saleable coal production of 1.1Mt (2015: 0.7Mt).

Austar Production	Units	2013	2014	2015	2016
Saleable coal production	Mt	1.3	1.5	0.7	1.1

Note: All data shown on a 100 percent basis.

### **Donaldson**

Donaldson includes Abel, an underground mine, and the former Tasman underground mine located near the Port of Newcastle, which was successfully rehabilitated in 2014. Located in the Hunter Valley, Abel previously produced thermal and semi-soft coking coal for blending and exporting.

Abel was operated as a bord and pillar operation, using continuous miners for first workings and secondary extraction. Abel also has approval to mine five longwall panels and four shortwall panels. As announced on 2 May 2016, Abel has been placed on care and maintenance.

Feasibility studies to consider potential future mining options have commenced and the majority of Abel's underground employees were successfully redeployed to the neighbouring Ashton and Austar mines.

Abel's production for the second half of the 2016 calendar year was in accordance with expectations, following the restructure of the operation in July and subsequent reduction in employee numbers and mining operations. In 2016, Abel produced a total 0.3Mt (2015: 1.8Mt) of ROM coal and 0.2Mt (2015: 1.3Mt) of saleable coal.

Donaldson Production	Units	2013	2014	2015	2016
Saleable coal production	Mt	2.5	2.0	1.3	0.2

Note: All data shown on a 100 percent basis.

**(b) Queensland mines**

**(i) Yarrabee**

Yarrabee is an open cut coal mine located approximately 40 kilometres north-east of Blackwater in central QLD's Bowen Basin.

Yarrabee produces ultra-low volatile, semi-anthracitic PCI coal, exporting to steelmakers in the Asian region via the Port of Gladstone. Yarrabee is 100% owned by the Company.

ROM coal is mined from a number of pits, with the majority of coal blended at the site's coal handling preparation plant, which has a capacity of 350 tonnes per hour. About 40% of the ROM coal is bypassed due to its superior in situ quality.

Product coal is road hauled about 37 kilometres to the Boonal load out facility on the Blackwater railway system and then railed to the RG Tanna and Barney Point Coal Terminals in Gladstone for export to customers.

In 2016, Yarrabee maintained consistently strong production rates notwithstanding detrimental wet weather impacts and flooding conditions in the first half of the year to deliver total ROM coal production of 3.6Mt (2015: 3.4Mt) and total saleable coal production of 3.1Mt (2015: 2.8Mt).

Yarrabee Production	Units	2013	2014	2015	2016
Saleable coal production	Mt	3.2	3.2	2.8	3.1

Note: All data shown on a 100 percent basis.

**(ii) Middlemount**

Middlemount is an open cut mine located 90 kilometres north-east of Emerald in QLD's Bowen Basin.

It is an incorporated joint venture between Peabody Energy and the Company (with the Company having a near 50% interest in the joint venture), Middlemount produces low volatile PCI coal and hard coking coal used for export markets, with contracted rail and port capacity through DBCT and APCT.

Full-scale operations at the open cut mine commenced in November 2011, with mining activities using conventional truck and shovel techniques. ROM coal is washed at an onsite facility with a capacity of about 5.5Mtpa.

In 2016, Middlemount maintained steady production rates, overcoming wet weather impacts in the first half of the year to produce 5.3Mt (2015: 5.5Mt) of ROM coal and 4.1Mt (2015: 4.4Mt) of saleable coal.

Peabody Energy and the Company have signed a letter of support, in which they agree to provide financial support to Middlemount Coal Pty Ltd, to enable it and its controlled entities to meet their debts as and when they become due and payable.

Middlemount Production	Units	2013	2014	2015	2016
Saleable coal production	Mt	2.9	3.6	4.4	4.1

Note: All data shown on a 100 percent basis

## 2.6 Exploration assets

### Monash

Monash (underground longwall opportunity) is a prospective export thermal exploration project, consisting of two exploration licences strategically located near existing infrastructure in the Hunter Valley, NSW. Monash is located 12 kilometres from the main rail line and 95 kilometres from the Port of Newcastle.

The Company is currently in the process of developing a conceptual mine plan, and completing an evaluation study in respect of Monash. Amended renewal applications have been submitted for the two tenements.

## 2.7 Infrastructure and logistics

### (a) Ports

The Company's proposed production output for the next five years will be supported by the following port capacity:

#### (i) **PWCS:**

The Company currently has ship-or-pay contracts with PWCS for the export of coal through the terminals at Newcastle. The Company's PWCS allocation is approximately 11.9Mtpa (100% basis).

Coal & Allied owns a 36.5% interest in PWCS.<sup>108</sup> PWCS owns and manages the Kooragang and Carrington coal terminals which sit on land leased from the Port of Newcastle. Coal & Allied does not have control over PWCS.

#### (ii) **NCIG:**

The Company is one of five shareholders in NCIG, which owns the Newcastle coal export terminal. The Company has a 27% ownership with an allocation of approximately 14.6 Mtpa per annum (100% basis).

#### (iii) **WICET:**

The Company is one of six shareholders in the Port of Gladstone's WICET, which has capacity of 27Mtpa. The Company has a 7.5% ownership with a contracted capacity 1.5Mtpa, allocated to Yarrabee.

#### (iv) **RGCT:**

The Company has contracted capacity of 1.7Mtpa through the RGCT at the Port of Gladstone. This capacity is allocated to Yarrabee.

#### (v) **APCT:**

Middlemount holds contracted capacity through APCT of 3.0Mtpa to support its annual production and sale of coal.

### (b) Rail

The Company is supported by the following rail networks to transport product from mine to port:

- (i) the Hunter Valley coal chain supports Ashton, Austar, Donaldson, HVO Moolarben, MTW and Stratford Duralie, with coal transported to the Port of Newcastle.
- (ii) The Blackwater railway system supports Yarrabee, transporting coal to the Port of Gladstone.
- (iii) The Goonyella railway system supports Middlemount, with coal transported to the APCT.

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<sup>108</sup> Yancoal has agreed to transfer the shares in Newcastle Coal Shippers held by Coal & Allied and Warkworth Coal Sales to a Glencore subsidiary (Anotero) following completion of the Glencore Transaction. This will reduce Coal & Allied's interest in PWCS to 30%.

**(c) Take-or-pay**

For the year ending 31 December 2017, the Company's ToP commitments are estimated to total around A\$57 million in excess of the Group's expected access requirements. The Company's logistics team has a target of reducing ToP exposure across the group by trading between sites and other users. Longer term, the Company's planned expansion of Moolarben will significantly rebalance the mine and logistics equation.

**(d) Mount Pleasant infrastructure contracts**

On completion of the Acquisition, the Company will become liable for infrastructure capacity under a number of Mount Pleasant related infrastructure agreements, which are currently held by Coal & Allied and its subsidiaries and MACH Energy, subject to an infrastructure utilisation deed between the parties. The infrastructure agreements include ToP rail and port commitments with an annual A\$37 million potential order of magnitude ToP exposure until the earlier of (i) 31 March 2018; or (ii) the termination or expiry of all the infrastructure agreements (the **RT Payment Date**).<sup>109</sup>

## **2.8 Marketing and sales arrangements**

**(a) The Company's in-house marketing team**

The Company has an experienced in-house team responsible for marketing and the co-ordination of marketing of its coal for all mine sites. In addition, there are certain third party marketing arrangements applicable to certain mine sites (as to which, see below).

**(b) Noble marketing arrangements**

Gloucester Coal entered into a marketing services agreement with Noble and Noble Marketing in connection with Gloucester Coal's acquisition of 100% of Noble's interest in Donaldson (prior to the merger between the Company and Gloucester Coal in 2012).

The marketing services agreement appoints Noble Marketing to provide, as and when required by Gloucester Coal, long-term international marketing services, advice and information from time to time in relation to the sale and marketing of:

- coal mined from a mine in NSW owned either solely, partly or through a joint venture by the Gloucester Coal group (in proportion to Gloucester Coal's underlying share or entitlement to coal produced from that mine) and exported from the Port of Newcastle;
- coal exported from the Port of Newcastle by a third party whose ownership of the mine from which the coal was mined arose through Gloucester Coal group;
- coal exported from the Port of Newcastle by a third party using facilities provided by the Gloucester Coal or its related bodies corporate or third party coal purchased by Gloucester Coal or its related bodies corporate for the sole or dominant purpose of blending and sale by way of export by ship from the Port of Newcastle; and
- in all cases including such coal or third party coal sold to Noble or its related bodies corporate,

(together, **Export Coal**).

These arrangements now fall under the Company as a consequence of its merger with Gloucester Coal. This appointment of Noble Marketing does not preclude the Company from using its own internal resources instead of Noble Marketing but is otherwise exclusive, with the exception of other pre-existing exclusive marketing arrangements entered into by members of the Gloucester Coal group.

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<sup>109</sup> MACH Energy and a Coal & Allied subsidiary are parties to an infrastructure utilisation deed under which the Coal & Allied subsidiary is responsible for the ToP charges for the Mount Pleasant infrastructure capacity up until the RT Payment Date. The PWCS and ARTC capacity is in the name of MACH Energy. The NCIG capacity is in the name of the Coal & Allied subsidiary, subject to a novation deed transferring that capacity to MACH Energy on first commercial production from Mount Pleasant. MACH Energy must indemnify Coal & Allied for all ToP liability in relation to the NCIG capacity following the RT Payment Date, until such time that MACH Energy becomes the holder of that NCIG capacity

The marketing services fee to be provided for Noble Marketing's services in each respective CY is to be calculated at a rate of 2% multiplied by:

- the actual sales of Export Coal in excess of 3.5Mt but not exceeding a maximum of 11.75Mt; and
- the volume weighted average gross sales price per tonne FOBT Port of Newcastle (less adjustment for quality standards and specifications) in respect of sales of the Export Coal.

The marketing services agreement will expire on 31 December 2040.

**(c) Moolarben**

Moolarben Coal Sales, a wholly owned subsidiary of the Company, is the exclusive marketing agent for coal produced by Moolarben. The Company has entered into the Moolarben Japan marketing agency agreement, pursuant to which Sojitz has the exclusive marketing rights in respect of all coal produced by Moolarben which is sold to certain entities in Asia.

**(d) Ashton**

Ashton Coal Mines Limited (**ACM**), a wholly owned subsidiary of the Company, is the exclusive marketing agent for coal produced by Ashton. Under the terms of a market representation agreement between ACM and Itochu, Itochu has exclusive marketing rights in Japan in respect of coal produced by Ashton. Itochu has retained these exclusive marketing rights following completion of the Company's acquisition (via its wholly owned subsidiary, White Mining (NSW) Pty Ltd) of the outstanding interests in Ashton.

**(e) Coal & Allied marketing and sales arrangements**

**(i) HVO sales arrangements**

HVOCS is the sales and marketing agent for coal produced by HVO. HVOCS is presently owned by the participants in the HVO Joint Venture in proportion to their relative interests in the HVO Joint Venture. Following completion of the Acquisition, the Company will indirectly hold 67.6% of the shares in HVOCS.<sup>110</sup> MDP and the Company have agreed that HVOCS will appoint YAS as the marketing agent for HVO from completion of the Acquisition subject to MDP retaining certain supervisory and approval rights in relation to the activities of YAS as the sale and marketing agent for HVO. The sale and marketing arrangements for HVO following completion of the Glencore Transaction are set out in Section (g) below.

Mitsubishi Corporation RtM International currently has a long-term offtake contract for HVO (**Mitsubishi RtMI Offtake Agreement**), which will be terminated on completion of the MDP Tag-along Agreement (assuming completion occurs after 31 December 2017, and subject to a run-off period for previously scheduled shipments).

**(ii) Warkworth sales arrangements**

Warkworth Coal Sales is the sales and marketing agent for the coal produced by Warkworth. Following completion of the Acquisition the Company will indirectly hold 55.6% of the shares in Warkworth Coal Sales.<sup>111</sup>

The Company has a call option to purchase MDP's 28.9% interest in the Warkworth joint venture for \$230 million. This option may be exercised at any time from completion of the Acquisition to 31 December 2018. However, if exercised, the completion of this acquisition would be conditional on (i) waiver (or non-exercise) of rights of pre-emption held by other participants in the Warkworth Joint Venture; (ii) completion of the MDP Tag-along Agreement; (iii) receipt of regulatory

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<sup>110</sup> As set out in Section 7.12 of this booklet, Yancoal's interest in HVO will reduce to 51.0% on completion of the Glencore Transaction. Completion of the Glencore Transaction is subject to a number of conditions precedent which have not been satisfied as at the date of this booklet.

<sup>111</sup> MDP (as to 28.9%), Mitsubishi Materials Corporation (as to 6%) and Nippon Steel & Sumitomo Metal Corporation (as to 9.5%) will hold the remaining shares in Warkworth Coal Sales (reflecting their respective interests in the Warkworth joint venture).

approvals (comprising, to the extent required, China outbound investment approvals and Australian foreign investment approval); and (iii) to the extent required, receipt of Yancoal and Yanzhou shareholder approvals.

**(iii) Mt Thorley sales arrangements**

POSCO and Coal & Allied each have entered into a short-form sale contract with MPCC under which POSCO and Coal & Allied have sold their share of Mt Thorley production to MPCC for on-sale to customers. Following completion of the Acquisition, MPCC will be a subsidiary of the Company.

**(iv) Mitsubishi Market Representation Agreement (HVO and MTW)**

YAS has entered into a market representation agreement with Mitsubishi RtM Japan (**Mitsubishi Market Representation Agreement**), under which Mitsubishi RtM Japan will be granted exclusive sales and marketing rights for the sale of thermal coal sourced from HVO and MTW to power utilities and industrial consumers in Japan following completion of the Acquisition, subject to certain exceptions for existing marketing channels and independent power producers that are owned or controlled by steel producers. Mitsubishi RtM Japan is entitled to a per tonne marketing fee for HVO and MTW coal sold to the relevant Japanese customers. This replaces the sales and marketing agreements that Mitsubishi RTM Japan currently has in place with Rio Tinto for the sale and marketing of HVO and Warkworth coal. The Glencore Implementation Deed requires Yancoal and Glencore to procure that Mitsubishi RtM Japan relinquish the rights granted to it under the Mitsubishi Market Representation Agreement with respect to coal produced by HVO.

**(v) Coal Supply and Transportation Agreement**

Rio Tinto has waived the novation condition precedent and a coal supply and transportation agreement will be entered into by ACH and YAS (**Coal Supply and Transportation Agreement**) at completion of the Acquisition. Pursuant to the Coal Supply and Transportation Agreement YAS will agree to supply coal to ACH on a back-to-back basis to the BLCP Agreement and will be responsible for the transportation of the coal from Australia to Thailand. The coal to be supplied must be sourced from Coal & Allied mines (HVO and MTW) or agreed third party suppliers. ACH will use the coal sourced under this agreement to fulfil its obligations under the BLCP Agreement. The parties will continue to cooperate with a view to achieving that the BLCP Agreement is replaced with a direct agreement between BLCP and YAS as soon as reasonably practicable following completion of the Acquisition. The Coal Supply and Transportation Agreement will continue until January 2032, unless terminated in accordance with its terms. YAS is required to supply up to a maximum of 3,627,000 tonnes (on an equivalent calorific value basis) per year and ACH is required to purchase a minimum of 2,560,000 tonnes (on an equivalent calorific value basis) per year. The quantity and scheduling of coal delivered by YAS under the Coal Supply and Transportation Agreement is as nominated by ACH but must be back-to-back with ACH's delivery obligations to BLCP under the BLCP Agreement. Yancoal and Glencore have agreed that on completion of the Glencore Transaction, Glencore will supply YAS up to 1 Mt (on an equivalent calorific value basis) per annum until the date of expiry or termination of the BLCP Contract (for the purpose of on-sale to ACH under the Coal Supply and Transportation Agreement, with a pro-rata reduction in the tonnage where the actual quantity of coal sold under the Coal Supply and Transportation Agreement is less than the maximum amount) on terms which are back-to-back with the Coal Supply and Transportation Agreement. Glencore is entitled to buy up to 1.0mt of coal and Yancoal is entitled to buy up to 1.05mt of coal from HVOCS per annum to be applied towards the BLCP contract.

Under the Coal Supply and Transportation Agreement ACH and YAS have agreed to appoint Rio Tinto Shipping Asia (Pte) Ltd (**RTSA**) as the sole and exclusive provider of freight and chartering services required by YAS under the Coal Supply and Transportation Agreement (**RTSA Freight Contract**). The RTSA Freight

Contract operates until 31 January 2022<sup>112</sup> and any further extension is by mutual agreement. The freight charges comprise a fixed base rate and an index bunker fuel component.

**(vi) Bee Creek Contract**

To support YAS's obligations under the Coal Supply and Transportation Agreement, YAS and Hail Creek Marketing, a company controlled by Rio Tinto group, will enter into a coal sale agreement pursuant to which YAS has the right (but not the obligation) to purchase, on arm's length terms, up to 800,000 tonnes of coal per annum from Hail Creek Marketing. It is proposed that this contract will continue until 31 December 2020, unless terminated in accordance with its terms. Hail Creek Marketing is the sales and marketing agent for Rio Tinto's majority owned<sup>113</sup> and managed Hail Creek hard coking and thermal coal project, located in the Bowen Basin, QLD (**Hail Creek Project**). On completion of the Glencore Transaction, Glencore is entitled to acquire up to 28% of YAS' annual entitlement to coal under the Bee Creek Contract (at Glencore's election).

The contract will be entered into by YAS for the purpose of supporting the obligations of the Company under the Coal Supply and Transportation Agreement. YAS can nominate, at its option, in the month of September of each year during the term of the contract, the amount of coal that it wishes to purchase for the following year.

**(f) Other arrangements**

**(i) Transitional Services Agreement**

A transitional services agreement is to be entered into by Rio Tinto Services and Coal & Allied (**Transitional Services Agreement**), pursuant to which Rio Tinto Services will agree to provide certain transitional services to Coal & Allied for between one and six months following completion of the Acquisition. The services to be provided by Rio Tinto Services will include information technology, geotechnical, HSEC, governmental approvals, accounting and payroll support (and such other services as may be agreed between Rio Tinto and the Company). The price payable by Coal & Allied for the provision of such services will be calculated on the basis of the actual cost incurred by Rio Tinto Services in providing the relevant services plus 7.5%.

Coal & Allied (under ownership of the Company) may terminate the Transitional Services Agreement at any time following completion of the Acquisition on five business days' prior notice.

**(ii) Royalty Deeds**

Certain wholly owned subsidiaries of Coal & Allied which hold interests in the HVO Joint Venture, Warkworth and Mt Thorley will each enter into a royalty deed with ACH, pursuant to which each of those entities agrees to pay royalties to ACH for the coal mined and sold from HVO, Warkworth and Mt Thorley, respectively, if the benchmark coal price for a relevant quarter (being the thermal coal index figure (in US\$) known as the globalCOAL Weekly NEWC Index, and published weekly on the website of globalCOAL) is greater than US\$75 per tonne, with the threshold price of US\$75 per tonne subject to escalation annually based on inflation (Australian CPI). The royalty period is 10 years commencing from the day after the third anniversary of completion of the Acquisition and the initial royalty amount is US\$2 per tonne payable quarterly, with the royalty rate subject to escalation annually based on inflation (Australian CPI). The royalty is payable on Coal & Allied's share of all coal mined and sold from the tenement area of specified tenements at HVO, Warkworth and Mt Thorley during the Royalty Period, other

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<sup>112</sup> Including where Coal Supply and Transportation Agreement is terminated prior to that date as a result of BLCP and YAS entering into a 'Direct Agreement' (as defined in the Coal Supply and Transportation Agreement) in which case RTSA will continue to provide the freight and chartering services required by YAS under the 'Direct Agreement' for the balance of the term of the RTSA Freight Contract.

<sup>113</sup> Queensland Coal Pty Ltd (a Rio Tinto subsidiary) holds an 82% interest in the Hail Creek Project. The remaining interest is held by Nippon Steel Australia Pty Ltd (8%), Marubeni Coal Pty Ltd (6.67%) and Sumisho Coal Development Pty Ltd (3.33%).



than coal supplied under the BLCP Agreement and coal extracted from any future underground mines. The aggregate amount of royalties payable by those Coal & Allied subsidiaries under all of the Royalty Deeds (excluding the non-contingent royalty payments described below) is capped at US\$410 million. If there is a purchase price reduction as a result of certain outstanding subordinate approvals relating to MTW not being obtained within 5 years of completion of the Acquisition, then the royalty payable on coal produced from the areas of MTW affected by the failure to obtain the outstanding subordinate approvals will not be subject to the benchmark coal price threshold price condition described above. Glencore has agreed to pay 49% of coal price linked contingent royalty payments payable on coal produced from HVO pursuant to the Glencore Transaction.

The Company has also agreed to pay an additional \$US240 million of 'non-contingent' royalty payments to ACH. These payments are not conditional on the volume of saleable coal produced by Coal & Allied or the sale prices achieved for that coal. These payments are payable over a four-year period, as follows:

- Completion to December 2017 – US\$110 million;
- January 2018 to September 2018 – US\$90 million;
- January 2019 to February 2019 – US\$20 million;
- January 2020 – US\$10 million; and
- January 2021 – US\$10 million.

Glencore has agreed to pay 27.93% of the non-contingent royalty payments under the Glencore Transaction.

**(g) Glencore marketing arrangements for HVO**

HVOCS will continue to be the sales entity for HVO following completion of the Glencore Transaction, with Yancoal holding 51% of the shares in HVOCS and Glencore holding 49% of those shares. All sales and marketing activities will be undertaken in accordance with a marketing plan approved by Yancoal and Glencore (via their representatives on the HVOCS board).

Under the terms of the Glencore Transaction, HVOCS must appoint (with effect from completion of the Glencore Transaction):

- Yancoal as the exclusive marketing agent for HVO coal sales in China, Taiwan (other than for certain specified customers), Thailand and Malaysia; and
- Glencore as the exclusive marketing agent for all other HVO coal sales.

## **2.9 Strategy**

The Company is committed to implementing its long-term strategy for growth and will continue to build its business by implementing operational efficiencies, reducing costs, sharing services and being a reliable supplier of premium coal products to its customers.

The Company continues to take decisive action to strengthen its capital structure and asset portfolio. A key focus is on strategic organic and acquisitive growth opportunities.

The Acquisition adds mines producing premium quality coal products to the Company's portfolio, enhances the Company's earnings and cash flow due to Coal & Allied's low cost structure and the pricing of its coal products, and enables deleveraging across all debt metrics.

Coal & Allied represents a transformative and acquisitive growth opportunity which is intended to result in the Company becoming Australia's largest pure-play coal producer, thus leveraging the Company's strategy to:

- **Markets:** strengthen relationships with its established customers throughout key markets including China, Japan, Korea and Taiwan;
- **Products:** maximise blending opportunities across Company-controlled and managed NSW operations, with a focus on producing quality thermal, semi-soft and semi-hard coking coals to meet changing demands throughout established and new markets;

- **Personnel:** develop the skills of its people, working together to build a robust culture of respect, transparency and efficiency, while continuing to employ and retain the right people with the right skills to grow the business into the future;
- **Cost reduction:** implement new efficiencies across all operations, maintaining long-term commitment to reducing costs to support future growth and capital improvements; and
- **Asset portfolio and capital structure:** strengthen the Company's capital structure and portfolio of assets.

## 2.10 SCN conversion

As noted in Section 1.4, as at the date of this booklet, Yanzhou holds 18,000,031 SCNs, which are convertible into 18,000,031,000 Shares<sup>114</sup> (although Yanzhou is prevented, by the ATP Order<sup>115</sup>, from converting SCNs where such conversion would result in it having voting power of more than 78% in Yancoal). Some investors have indicated that they regard the SCNs, and their associated conversion rights, as creating an 'overhang' in the Company's capital structure.

Yancoal will simplify its capital structure in connection with the Offer and the Acquisition to remove any 'overhang' associated with Yanzhou's SCNs as follows:

- Yanzhou has committed to convert as many of its SCNs as it is able to convert, having regard to the ATP Order, and this is expected to result in conversion of all of Yanzhou's SCNs (see the table below for further details).
- The SCN conversion price will be US\$0.10 (being the same as the Offer Price), and Yanzhou has agreed that this conversion price will apply even if the SCN Terms would otherwise have resulted in a lower adjusted conversion price as a result of the Offer.
- Shares to be issued to Yanzhou on conversion of its SCNs will be issued at the same time as Shares are issued under the Offer.

In the event that Yanzhou is unable to convert all of its SCNs into Shares at the time of issue of New Shares under the Offer due to an Underwriter or Placement Investor terminating or not performing its obligation to subscribe for New Shares, Yanzhou has undertaken to waive any right it has to convert those residual SCNs into Shares pursuant to the SCN Terms.<sup>116</sup> Yanzhou will also procure that any transferee of any residual SCNs provides a legally binding undertaking to similar effect, for the benefit of the Company and Yancoal SCN Limited.

Following SCN conversion and assuming take-up of all New Shares the subject of subscription or underwriting commitments received in respect of the Offer (totalling US\$2.45 billion), Yanzhou's expected post-Offer share and SCN holdings are set out below:

Offer take up	Yanzhou SCN holding before completion of the Offer and SCN conversion (# of SCNs)	Yanzhou Shareholding following completion of the Offer and SCN conversion (% of Shares) <sup>117</sup>
US\$2.45 billion	18,000,031	65%

## 2.11 Core debt and vendor finance for the Acquisition

### (a) Company debt maturity profile as at 30 June 2017

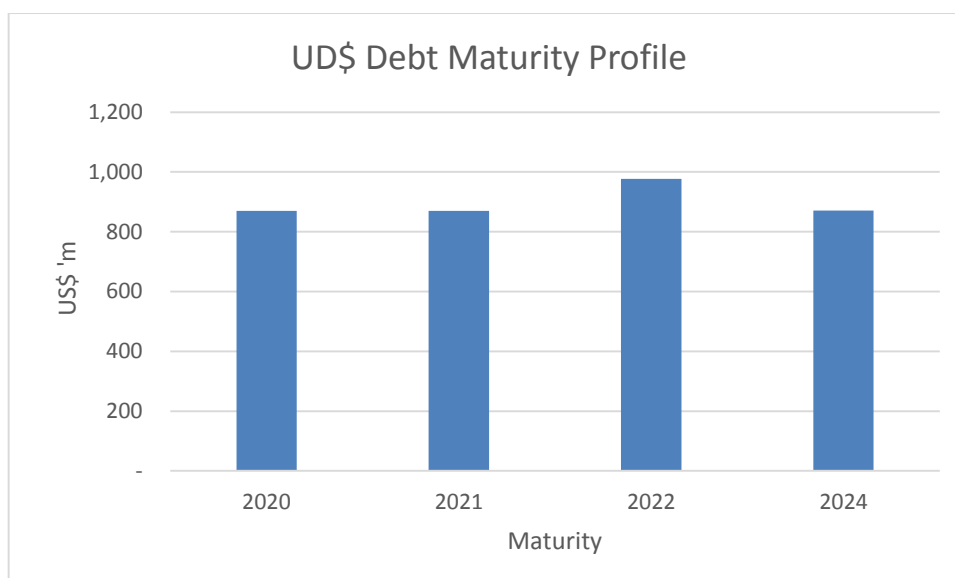
The chart below illustrates the Company's current US\$ loan maturity profile as at 30 June 2017 excluding lease liabilities, contingent instrument facilities and the SCNs.

<sup>114</sup> Based on a conversion price of US\$0.10 per Share. This is the conversion price applying as at issue of the SCNs, although it is possible that a lower conversion price could apply following the Offer as a result of adjustment provisions included in the SCN Terms.

<sup>115</sup> Except with approval from the Company's minority Shareholders.

<sup>116</sup> If SCNs are not converted at the time of issue of New Shares under the Placement and Entitlement Offer for any other reason, Yanzhou has undertaken that it will not rely on any adjustment to the conversion price to below US\$0.10, even if the SCN Terms would otherwise have resulted in a lower adjusted conversion price.

<sup>117</sup> Note that Yanzhou's maximum shareholding in the Company is expected to be approximately 65% following the Offer and SCN conversion. However, Lucion Group, an Underwriter of the Entitlement Offer, may be regarded as an associate of Yanzhou, and Yanzhou's maximum voting power is therefore expected to be 72% (if Lucion Group is required to take up its full underwriting commitment).



Those loans total US\$3,587,125,334 outstanding as at 30 June 2017, comprising US\$2,600,000,000 of Bank Debt and US\$987,125,334 of Shareholder Debt.

**(b) Company pro forma debt profile following the Offer**

The chart below illustrates the Company's pro forma US\$ loan maturity profile excluding lease liabilities and contingent instrument facilities immediately following completion of the Offer and the Acquisition and the Yankuang Back-stop Facility.

Lender	Borrower	Facility limit	Principal	Start	End	Rate	Security
<b>BOC, Sydney Branch<sup>118</sup></b>	Yancoal	US\$2,400,000,000	US\$2,400,000,000	16-Dec-12	16-Dec-22	LIBOR + 3.100000 % <sup>119</sup>	Yanzhou corporate guarantee
<b>CCB, Sydney Branch<sup>118</sup></b>	Yancoal	US\$200,000,000	US\$200,000,000	16-Dec-12	16-Dec-22	LIBOR + 2.800000 %	Yanzhou corporate guarantee
<b>Yancoal International Resources Development Co. Ltd<sup>120</sup></b>	Yancoal	US\$115,996,900	US\$115,996,900	31-Dec-14	12-May-22	7.7%	Unsecured
<b>Yanzhou<sup>120</sup></b>	Yancoal	A\$1,400,000,000	US\$681,528,831	31-Dec-14	31-Dec-24	7.0000%	Unsecured
<b>Yanzhou<sup>120 121</sup></b>	Yancoal	US\$807,000,000	US\$189,599,603	31-Dec-14	31-Dec-24	7.0000%	Unsecured
<b>Yankuang</b>	Yancoal	The lesser of: - the shortfall between the funds received by the Company under the Offer and the US\$2,450,000,000 purchase price	Not applicable as at the date of this booklet	Three years from loan commencement		< US\$500,000,000 – 8% for the first 12 months after drawdown	Unsecured

<sup>118</sup> Bank Debt.

<sup>119</sup> Subject to BOC syndication approval and finalisation of transaction documents.

<sup>120</sup> Shareholder Debt.

<sup>121</sup> This facility is only available to finance SCN coupons and is therefore unlikely to be able to support material drawings after conversion of Yanzhou's SCNs.

for the Acquisition; and - US\$1 billion.	n and 11% thereafter r > US\$500,000,000 – 9% for the first 12 months after drawdown and 12.5% thereafter r
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In addition to the changes to the Company's debt structure, it is proposed that all of Yanzhou's SCNs on issue will also be converted at the same time as the issue of New Shares under the Offer.

**(c) Details of Bank Debt**

The Company has the following Bank Debt facilities:

**BOC and CCB Syndicated Facility**

Facility limit	US\$2,600,000,000
Drawn amount as at 30 June 2017	US\$2,600,000,000
Maturity date	US\$300,000,000 on 16 June 2020 US\$569,655,172 on 16 December 2020 US\$300,000,000 on 16 June 2021 US\$569,655,172 on 16 December 2021 US\$300,000,000 on 16 June 2022 US\$560,689,656 on 16 December 2022
Purpose	To fund the acquisition of the Felix Resources in 2009
Lenders	BOC and CCB
Ranking and priority	Secured debt, ranks ahead of SCNs, Shareholder Debt and other junior ranking obligations

**(d) Details of Shareholder Debt**

Yanzhou has made the following Shareholder Debt available to the Company:

**(i) Shareholder debt facility 1**

Facility limit	A\$1,400,000,000
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Drawn amount as at 30 June 2017	US\$681,528,831
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Maturity date	31 December 2024
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Purpose	To fund working capital and capital expenditure
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Ranking and priority	Unsecured debt, contractually subordinated to: <ol style="list-style-type: none"><li>1. Bank Debt;</li><li>2. Shareholder Debt Facility 2;</li><li>3. Shareholder Gloucester Term Loan Facility; and</li><li>4. SCNs</li></ol>
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**(ii) Shareholder debt facility 2**

Facility limit	US\$807,000,000
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Drawn amount as at 30 June 2017	US\$189,599,603
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Maturity date	31 December 2024
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Purpose	To fund coupon payable on the SCNs
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Ranking and priority	Unsecured debt, contractually subordinated to Bank Debt and the Shareholder Gloucester Term Loan Facility. Ranks pari passu with SCNs
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**(iii) Shareholder Gloucester term loan facility**

Facility limit	US\$115,996,900
Drawn amount as at 30 June 2017	US\$115,996,900
Maturity date	12 May 2022
Purpose	To fund the acquisition of Gloucester Coal in 2012
Ranking and priority	Unsecured debt, contractually subordinated to Bank Debt

**(iv) Yankuang Back-stop Facility**

Yankuang has provided a binding, irrevocable letter addressed to the Company (represented by its Independent Board Committee), undertaking to the Company to provide, or otherwise procure its affiliates to provide funds on the following terms:

Facility limit	The lesser of: <ul style="list-style-type: none"> <li>the shortfall as described in the 'conditions to drawdown' below; and</li> <li>US\$1 billion.</li> </ul>
Drawn amount as at the date of this booklet	Not applicable
Maturity date	3 years
Purpose	To fund the purchase price for the Acquisition (excluding any associated transaction costs)
Conditions to drawdown	<ul style="list-style-type: none"> <li>There is a shortfall between the funds received by the Company under the Offer and the US\$2.45 billion purchase price for the Acquisition; and</li> <li>Receipt of all necessary PRC regulatory approvals for the provision of funds.</li> </ul> <p>Yankuang has undertaken to use its best endeavours to procure the receipt of all necessary PRC regulatory approvals for the provision of funds.</p>

Ranking and priority	Unsecured and subordinated to all amounts owing under the Company's senior debt facilities
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Repayment	Funds to be repaid out of proceeds of fresh equity issue. Refer to Section 4.3(e) for further details.
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## 2.12 Contingent instrument facilities

### (a) Summary

The Company and its subsidiaries forming part of its consolidated group have contingent instrument facilities as follows:

	As at 30 June 2017	Projected after the Offer and Completion of the Acquisition
Total available facilities, which are split by currency (A\$/USD)	US\$140,000,000 (Equivalent to A\$182,007,280)	US\$140,000,000 (Equivalent to A\$182,007,280)
	A\$285,449,539	A\$1,135,449,539 <sup>122</sup>
Drawn to provide contingent instruments to support obligations or liabilities of the Group (and hence do not represent substantive additional obligations of the Group taken as a whole)	US\$7,844,175 (Equivalent to A\$10,197,836)	US\$18,686,816 (Equivalent to A\$24,293,832)
	A\$276,528,556	A\$924,026,845
Drawn to provide contingent instruments to support liabilities of entities not in the Group (and hence do not represent substantive additional obligations of the Group taken as a whole, although they may be supported by an indemnity from a non-Group entity)	US\$121,313,184 (Equivalent to A\$157,713,448)	US\$121,313,184 (Equivalent to A\$157,713,184)
	A\$-	A\$-
Undrawn	US\$10,842,640 (Equivalent to A\$14,095,996)	US\$- (Equivalent to A\$-)

<sup>122</sup> This figure includes a proposed A\$1 billion bank guarantee facility that has not yet been finalised. Details regarding the status of this proposed bank guarantee facility are included in Sections 4.2(g) and 7.8 of this booklet.

A\$8,920,982

A\$211,422,694

Contingent instrument facilities are facilities for the issue of bank guarantees, letters of credit and other contingent instruments.

**(b) Details of contingent instrument facilities**

**(i) BOC facility - secured**

Facility limit US\$140,000,000  
(Equivalent to A\$182,007,280)

A\$47,000,000

Drawn amount as at 30 June 2017 US\$129,157,360  
(Equivalent to A\$167,911,284)

A\$45,495,668

Maturity date US\$ facility  
US\$45,000,000 – 16 December 2017  
US\$45,000,000 – 16 December 2018  
US\$50,000,000 – 16 December 2019  
A\$ facility – 27 September 2017, to be renewed for another 12 months

Purpose Refinance various existing CBA bank guarantees and replace all existing Westpac Banking Corporation bank guarantees  
Bank guarantees can be drawn in both US\$ and A\$

Lender BOC

Borrower Yancoal

Security US\$ Facility – Parent corporate guarantee  
A\$ Facility – Parent company letter of comfort

**(ii) BOC facility – cash backed**



Facility limit	A\$28,000,000
Drawn amount as at 30 June 2017	A\$28,000,000
Maturity date	17 February 2018 – to be renewed for another 12 months
Purpose	To support liabilities and obligations of the Group Bank guarantees can be drawn in both US\$ and A\$
Lender	BOC
Borrower	Yancoal
Ranking and priority	100% supported by cash collateral

**(iii) CBA facility**

Facility limit	A\$150,000,000
Drawn amount as at 30 June 2017	A\$142,688,025
Maturity date	31 March 2018 – to be renewed for another 12 months
Purpose	To support liabilities and obligations of the Group Bank guarantees can be drawn in both US\$ and A\$
Lender	CBA
Borrower	Yancoal Resources Ltd
Security	Yarrabee and Moolarben mine assets

**(iv) ICBC Facility**

Facility limit A\$25,000,000

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Drawn amount as at 30 June 2017 A\$25,000,000

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Maturity date 31 December 2017<sup>123</sup>

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Purpose To support liabilities and obligations of the Group  
Bank guarantees can be drawn in both US\$ and A\$

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Lender ICBC

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Borrower Yancoal

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Security Parent corporate guarantee and cash collateral of A\$2,500,000

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**(v) ICBC cash backed facility**

Facility limit A\$34,249,539

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Drawn amount as at 30 June 2017 A\$34,249,539

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Maturity date 30 June 2018

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Purpose To support liabilities and obligations of the Group  
Bank guarantees can be drawn in both US\$ and A\$

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Lender ICBC

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<sup>123</sup> On 19 May 2017, due to a change in ICBC's industry policy, ICBC formally notified the Company that the A\$125 million bank guarantee facility will not be renewed after expiry in December 2017.

Borrower Yancoal

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Security Cash collateral of A\$34,249,539.

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### 2.13 Finance lease facilities

Facility limit A\$51,437,404

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Drawn amount as at 30 June 2017 A\$17,955,160

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Maturity date 5 April 2018

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Purpose To fund purchase of mining equipment

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Lender Komatsu

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Borrower Yancoal

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Security Equipment purchased under finance lease.

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Facility limit A\$52,266,292

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Drawn amount as at 30 June 2017 A\$45,092,862

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Maturity date 28 November 2022

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Purpose To fund purchase of mining equipment

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Lender Komatsu

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Borrower                      Yancoal Mining Services Pty Ltd

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Security                      Equipment purchased under finance lease.

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### 3. Financial information

#### 3.1 Pro Forma Historical Financial Information

Pro forma historical financial information has been prepared to reflect the impact of:

- the Acquisition;
- the MDP Tag-along Agreement; and
- the Glencore Transaction,

and consists of the following:

- pro forma historical consolidated income statement for the year ended 31 December 2016 (**Pro Forma Historical Consolidated Income Statement**);
- pro forma historical consolidated balance sheet as at 31 December 2016 (**Pro Forma Historical Consolidated Balance Sheet**); and
- pro forma historical consolidated statement of cash flows for the year ended 31 December 2016 (**Pro Forma Historical Consolidated Statement of Cash Flows**);

(together, the **Pro Forma Historical Financial Information**).

The Pro Forma Historical Financial Information has been prepared and presented in accordance with the recognition and measurement principles prescribed by AAS. The financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by AAS applicable to annual financial reports prepared in accordance with the Corporations Act.

The Pro Forma Historical Financial Information has not been audited but has been reviewed by ShineWing Australia Corporate Finance Pty Ltd in accordance with Australian Auditing Standards applicable to review engagements.

The Pro Forma Historical Financial Information is derived from the Company's audited financial information for the year ended 31 December 2016 and Coal & Allied's audited financial information for the year ended 31 December 2016 as outlined in Appendix A of this booklet together with and HVO's unaudited financial information for the year ended 31 December 2016.

The pro forma adjustments have been prepared using a A\$:US\$ exchange rate of 0.75.

The following information should be read together with the other information contained in this booklet, including the risks in Section 4, to understand the basis, assumptions and limitations underlying the financial information presented. More detailed financial results are available in the Company's lodged consolidated financial statements for the financial year ended 31 December 2016, which can be obtained from [www.yancoal.com.au](http://www.yancoal.com.au).

#### **Key estimates and judgements**

The actual fair values of all the identifiable assets and liabilities, including deferred tax, acquired by the Acquisition will be determined by the Directors by reference to valuations to be carried out by an independent professional qualified valuer. The fair values of the identifiable assets and liabilities of Coal & Allied will be determined on the completion date and may be materially different from their respective values used in the preparation of the pro forma financial information. The tax bases to be allocated to the acquired assets will be subject to valuation, to be undertaken on completion. Accordingly, the final amounts of assets or liabilities, bargain purchase gain or goodwill, if any, to be recognised in the consolidated financial statements of the Company upon Completion may be materially different from the amounts adopted in the preparation of this pro forma financial information.

The book value of assets and liabilities, including deferred tax, disposed under the Glencore Transaction are subject to change when the purchase price allocation on the Acquisition is finalised as at the date of actual Completion of the Acquisition. Accordingly, the final amounts of assets or liabilities to be de-recognised and any gain or loss on disposal included in the consolidated financial statements of the Company upon Completion may be materially different from the amounts adopted in the preparation of this pro forma financial information.

As detailed in Section 7.12 of this booklet, Glencore and Yancoal will enter into a replacement joint venture agreement for HVO on completion of the Glencore Transaction. The pro forma

historical financial information has been prepared on the basis that the replacement joint venture arrangement continues to provide joint control such that the Group will proportionally consolidate its 51% interest in HVO.

As detailed in Section 7.12 of this booklet, Glencore has agreed to pay US\$710 million to HVOR for its 32.4% interest in HVO subject to the MDP Consent Conditions. If MDP consents to the Glencore Transaction prior to Completion the Company's stamp duty liability with respect to the MDP Tag-along Acquisition will be nil. If MDP consent is not granted and the Company and Glencore establish the joint venture through other arrangements. Glencore will contribute 49% of any stamp duty payable by the Company on the 32.4% interest (expected to total approximately A\$52.1 million. With respect to stamp duty on the MDP Tag-along Acquisition the Pro Forma Historical Financial Information has been prepared on the basis that MDP consent is not granted prior to Completion, as it is outside of the Company's control, and net stamp duty payable of \$26.6 million has been recognised.

The Pro Forma Historical Consolidated Balance Sheet in Section 3.1(b) of this booklet includes pro forma closing cash and cash equivalents of the Group of A\$509.4 million. Currently, no decision has been made by the Company regarding the use of any cash considered to be surplus to normal course of business operating requirements. Potential uses are expected to include the partial repayment of the Company's BOC and CCB Syndicated Facility in order to further deleverage the Company's balance sheet, however the final decision on the use of such cash will depend upon the expected timing of the receipt of the cash and any future investment decisions that may or may not be made by the Company (including any decision to exercise the Company's option over MDP's 28.9% interest in the Warkworth joint venture, should the Company decide to pursue such a course in the future). As such the Pro Forma Historical Financial Information makes no assumption about the use of any surplus cash.

**(a) Pro Forma Historical Consolidated Income Statement**

Set out below is the Pro Forma Historical Consolidated Income Statement for the financial year ended 31 December 2016.

A\$ million	Acquisition				MDP & Glencore Transaction	
	Yancoal pro forma information	Coal & Allied pro forma information	Pro forma adjustments	Group before MDP Tag-along Agreement & Glencore Transaction	Pro forma adjustments	Group
Revenue	1,347.6	1,640.7	5.8	2,994.1	(212.1)	2,782.0
<b>Operating EBITDA</b>	<b>338.6</b>	<b>475.4</b>	<b>22.6</b>	<b>836.6</b>	<b>(65.8)</b>	<b>770.8</b>
Depreciation and amortisation	(132.6)	(122.3)	(96.8)	(351.7)	30.8	(320.9)
<b>Operating EBIT</b>	<b>206.0</b>	<b>353.1</b>	<b>(74.2)</b>	<b>484.9</b>	<b>(35.0)</b>	<b>449.9</b>
Finance costs <sup>124</sup>	(321.1)	(5.9)	(42.9)	(369.9)	9.8	(360.1)
Fair value losses recycled from hedge reserve <sup>125</sup>	(133.3)	-	-	(133.3)	-	(133.3)
Stamp duty	(12.2)	-	(195.9)	(208.1)	(26.6)	(234.7)
Transaction costs	(3.1)	-	(12.9)	(16.0)	(19.8)	(35.8)
Revaluation of royalty	(6.4)	-	-	(6.4)	-	(6.4)
<b>(Loss)/profit before income tax</b>	<b>(270.1)</b>	<b>347.2</b>	<b>(325.9)</b>	<b>(248.8)</b>	<b>(71.6)</b>	<b>(320.4)</b>
Income tax benefit/(expense)	64.2	(100.3)	57.7	21.6	15.3	36.9
<b>(Loss)/profit after income tax</b>	<b>(205.9)</b>	<b>246.9</b>	<b>(268.2)</b>	<b>(227.2)</b>	<b>(56.3)</b>	<b>(283.5)</b>

<sup>124</sup> Finance costs include bank fees and other charges as they are considered debt service costs.

<sup>125</sup> Fair value losses recycled from hedge reserve of A\$133.3 million is reported within Revenue in the 2016 financial statements.

(Loss)/profit after income tax before non-operating items <sup>126</sup>	(93.7)	246.9	(63.3)	89.9	(15.8)	74.1
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**(i) The Acquisition**

The Pro Forma Historical Consolidated Income Statement includes the following pro forma adjustments as if the Acquisition had occurred on 1 January 2016.

- The pro forma adjustments to the audited income statement of Yancoal for the year ended 31 December 2016 – see Section 1 of Appendix A for more detail.
- The pro forma adjustments to the audited income statement of Coal & Allied for the year ended 31 December 2016 – see Section 2 of Appendix A for more detail.
- An increase in revenue and operating EBITDA of A\$5.8 million to reflect the partial release of the BLCP provision calculated as if the Acquisition had occurred on 1 January 2016. The BLCP Agreement is a long-term sales offtake contract as detailed in Section 2.8(e)(v). Based on management's preliminary long-term coal price forecast the contract is 'below market' and as such a provision has been recognised representing the discounted, after tax, 'below market' value of the contract.
- An increase in operating EBITDA of A\$16.8 million to reflect the partial release of the excess take-or-pay (**ToP**) provision calculated as if the Acquisition had occurred on 1 January 2016.
- An increase in depreciation and amortisation of A\$96.8 million to reflect the amortisation of additional mining tenements recognised on acquisition.
- An increase in finance costs of A\$42.9 million to reflect the unwind of the discount on the non-contingent royalty and the BLCP and ToP provisions.
- An increase in stamp duty of A\$195.9 million to reflect a high-level estimate of NSW stamp duty payable.<sup>127</sup>
- An increase in transaction costs of A\$12.9 million to reflect current estimates of the transaction costs to be incurred in 2017 not relating to the Offer.
- An increase in income tax benefit of A\$57.7 million comprising A\$39.0 million being the net tax impact of the above pro forma adjustments, excluding stamp duty on acquisition and an increase in income tax benefit of A\$18.7 million being the reversal of interest deductions denied to the Company due to thin capitalisation expected to be claimable under the new capital structure.

**(ii) MDP Tag-along Agreement and Glencore Transaction**

The Pro Forma Historical Consolidated Income Statement for the year ended 31 December 2016 includes pro forma adjustments as if the MDP Tag-along Agreement and Glencore Transaction had been completed on 1 January 2016.

**(A) MDP Tag-along Agreement**

- An increase in stamp duty of A\$26.6 million to reflect a high-level estimate of NSW stamp duty payable of A\$52.1 million less amounts to be recovered from Glencore (49%) of A\$25.5 million.<sup>127</sup>

<sup>126</sup> Calculated as (loss)/profit after income tax adjusted for the after tax effect of the fair value losses recycled on hedge reserve, stamp duty, transaction costs and revaluation of royalty.

<sup>127</sup> This duty amount is an estimate only. The final duty payable will be subject to the foreign currency exchange rate at the relevant time and determination by independent valuation of the unencumbered market values of the dutiable and non-dutiable property relating to each relevant transaction.

- An increase in transaction costs of \$10.5 million to reflect current estimates of the transaction costs to be incurred.

(B) **Glencore Transaction**

- 16.6% of the unaudited income statement of HVO for the year ended 31 December 2016 has been derecognised, including the proportion of the pro forma adjustments that have been outlined in section 3.1(a)(i) *'the Acquisition'* above that relate to the Glencore Transaction.
- No gain or loss on disposal has been included in the income statement to reflect the assumption there is no difference between the consideration to be received and the book value of the assets and liabilities to be disposed of.
- An increase in transaction costs of \$9.3 million to reflect current estimates of the transaction costs to be incurred.

(b) **Pro Forma Historical Consolidated Balance Sheet**

Set out below is the Pro Forma Historical Consolidated Balance Sheet as at 31 December 2016.

A\$ million	Acquisition			MDP Tag-along Agreement & Glencore Transaction		
	Yancoal pro forma information	Coal & Allied pro forma information	Pro forma adjustments	Group before MDP Tag-along Agreement & Glencore Transaction	Pro forma adjustments	Group
<b>Current assets</b>						
Cash and cash equivalents	190.3	311.7	(518.2)	(16.2)	525.6	509.4
Trade and other receivables	435.7	275.9	-	711.6	(34.7)	676.9
Non-contingent royalty receivable	-	-	-	-	36.5	36.5
Royalty receivable	31.2	-	-	31.2	-	31.2
Inventories	74.6	60.7	-	135.3	(8.9)	126.4
Other current assets	7.0	-	-	7.0	-	7.0
<b>Total current assets</b>	<b>738.8</b>	<b>648.3</b>	<b>(518.2)</b>	<b>868.9</b>	<b>518.5</b>	<b>1,387.4</b>
<b>Non-current assets</b>						
Trade and other receivables	406.9	0.1	-	407.0	-	407.0
Non-contingent royalty receivable	-	-	-	-	45.7	45.7
Royalty receivable	167.7	-	-	167.7	-	167.7
Investments accounted for using the equity method	4.7	205.9	-	210.6	(36.8)	173.8
Land held for development or future sales	-	0.9	52.9	53.8	-	53.8
Property, plant and equipment	1,525.6	762.3	(14.5)	2,273.4	(105.2)	2,168.2
Mining tenements	2,127.6	152.1	3,290.9	5,570.6	(709.9)	4,860.7
Intangible assets	70.4	2.2	-	72.6	-	72.6
Exploration and evaluation assets	498.2	-	-	498.2	-	498.2
Deferred tax assets	1,339.1	138.8	73.9	1,551.8	0.1	1,551.9
Other non-current assets	5.8	-	-	5.8	13.3	19.1
Interest-bearing loan to associate	775.0	-	-	775.0	-	775.0
<b>Total non-current assets</b>	<b>6,921.0</b>	<b>1,262.3</b>	<b>3,403.2</b>	<b>11,586.5</b>	<b>(792.8)</b>	<b>10,793.7</b>



A\$ million	Acquisition			MDP Tag-along Agreement & Glencore Transaction		
	Yancoal pro forma information	Coal & Allied pro forma information	Pro forma adjustments	Group before MDP Tag-along Agreement & Glencore Transaction	Pro forma adjustments	Group
<b>Total assets</b>	<b>7,659.8</b>	<b>1,910.6</b>	<b>2,885.0</b>	<b>12,455.4</b>	<b>(274.3)</b>	<b>12,181.1</b>
<b>Current liabilities</b>						
Trade and other payables	467.1	355.1	-	822.2	(20.9)	801.3
Non-contingent royalty payable	-	-	130.8	130.8	-	130.8
Interest-bearing liabilities	20.2	-	-	20.2	-	20.2
Derivative financial instruments	0.6	-	-	0.6	-	0.6
Provisions	10.0	70.3	66.1	146.4	(19.9)	126.5
Other current liabilities	-	4.4	-	4.4	-	4.4
<b>Total current liabilities</b>	<b>497.9</b>	<b>429.8</b>	<b>196.9</b>	<b>1,124.6</b>	<b>(40.8)</b>	<b>1,083.8</b>
<b>Non-current liabilities</b>						
Non-contingent royalty payable	-	-	163.6	163.6	-	163.6
Interest-bearing liabilities	4,930.7	-	-	4,930.7	-	4,930.7
Deferred income	-	2.9	-	2.9	-	2.9
Deferred tax liabilities	762.2	11.3	668.8	1,442.3	(146.1)	1,296.2
Provisions	117.2	127.0	115.7	359.9	(41.0)	318.9
<b>Total non-current liabilities</b>	<b>5,810.1</b>	<b>141.2</b>	<b>948.1</b>	<b>6,899.4</b>	<b>(187.1)</b>	<b>6,712.3</b>
<b>Total liabilities</b>	<b>6,308.0</b>	<b>571.0</b>	<b>1,145.0</b>	<b>8,024.0</b>	<b>(227.9)</b>	<b>7,796.1</b>
<b>Net assets</b>	<b>1,351.8</b>	<b>1,339.6</b>	<b>1,740.0</b>	<b>4,431.4</b>	<b>(46.4)</b>	<b>4,385.0</b>
<b>Equity</b>						
Contributed equity	919.7	59.7	5,412.0	6,391.4	-	6,391.4
- Subordinated capital notes	2,184.1	-	(2,183.5)	0.6	-	0.6
Reserves (Accumulated losses)/retained earnings	(816.6)	10.3	(10.3)	(816.6)	-	(816.6)
<b>Capital and reserves attributable to owners of Yancoal</b>	<b>1,351.8</b>	<b>1,336.9</b>	<b>1,740.0</b>	<b>4,428.7</b>	<b>(46.4)</b>	<b>4,382.3</b>
Non-controlling interests	-	2.7	-	2.7	-	2.7
<b>Total equity</b>	<b>1,351.8</b>	<b>1,339.6</b>	<b>1,740.0</b>	<b>4,431.4</b>	<b>(46.4)</b>	<b>4,385.0</b>

(i) **The Acquisition**

The Pro Forma Historical Consolidated Balance Sheet after the Acquisition includes the following pro forma adjustments as if the Acquisition had occurred on 31 December 2016.

- The pro forma adjustments to the audited balance sheet of Yancoal as at 31 December 2016 – see Section 1 of Appendix A of this booklet for more detail.
- The pro forma adjustments to the audited balance sheet of Coal & Allied as at 31 December 2016 – see Section 1 of Appendix A of this booklet for more detail.

- An increase in contributed equity and cash of A\$3,133.3 million (US\$2,350 million) to recognise the Entitlement Offer of 23,500 million Shares at US\$0.10 per Share before Offer costs.
- An increase in contributed equity and cash of A\$200.0 million (US\$150 million) to recognise the Placement of 1,500 million Shares at US\$0.10 per Share before equity raising costs.
- A decrease in cash of A\$3,266.7 million (US\$2,450 million) representing the consideration payable on Completion.

The consideration paid is also subject to a net debt (bank balances and cash less borrowings) and working capital adjustment determined with reference to the actual net debt and actual working capital at the final calendar date of the month immediately preceding the date of Completion.

The estimated net debt included in the Sale and Purchase Agreement was nil and the Coal & Allied balance sheet as at 31 December 2016 included net cash of A\$311.7 million. This amount has been included as an increase to the consideration noted above.

No adjustment to net working capital is assumed.

A non-contingent royalty payable of A\$294.4 million has been recognised to reflect the estimated present value of the non-contingent royalty payable as part of the consideration for the Acquisition.

Based on forecast benchmark thermal coal prices as at the date of this report the US\$75/t contingent royalty payment price target is not expected to be triggered and as such no value has been attributed to the contingent royalty as part of the consideration for the Acquisition.

- A decrease in cash of A\$77.3 million to reflect current estimates of the costs associated with the Acquisition to be incurred subsequent to 31 December 2016. Offer costs able to be capitalised of A\$64.4 million are included as reduction to contributed equity with the balance of A\$12.9 million associated with acquisition due diligence expensed and allocated to retained earnings.
- A decrease in cash of A\$195.9 million to reflect a high-level estimate of NSW stamp duty payable 90 days after Completion.
- Based on due diligence conducted to date, the Company has determined the following preliminary purchase price allocation accounting adjustments.
  - An increase in land held for development or future sales of A\$52.9 million to reflect current contractual arrangements.
  - An increase in mining tenements of A\$3,290.9 million representing the residual between the consideration to be paid less the fair value of all other identifiable assets and liabilities to be acquired assuming this is supported by the Group's valuation of mining tenements as determined at Completion. To the extent any residual is not supported by mining tenements, it will be recognised as goodwill.
  - An increase in provisions of A\$123.3 million for the BLCF Agreement. The provision has been calculated assuming a 31 December 2016 transaction date consistent with the pro forma balance sheet. The actual provision will be calculated at Completion and as such could be materially different.
  - An increase in provisions of A\$73.0 million for excess ToP rail and port commitments including A\$31.2 million relating to Mount Pleasant ToP commitments retained by Coal & Allied through to 31 March 2018 following the disposal of Mount Pleasant to MACH Energy in August 2016. The provision has been calculated

assuming a 31 December 2016 transaction date consistent with the pro forma balance sheet. The actual provision will be calculated at Completion and as such could be materially different.

- A decrease in provisions and property, plant and equipment of A\$14.5 million for the rehabilitation provisions of HVO and MTW to align with the Company's accounting policy calculated by reference to the current NSW government security bonds on issue.
- An increase in deferred tax assets of A\$54.6 million attributable to the recognition of provisions noted above.
- An increase in deferred tax assets of A\$19.3 million recognised on the capitalised Offer costs.
- A decrease in deferred tax liabilities of A\$4.4 million attributable to the decrease in property, plant and equipment noted above.
- An increase in deferred tax liabilities of A\$673.2 million recognised on mining tenements representing a preliminary high-level estimate.
- Deferred taxation is calculated on the temporary differences arising from the difference in fair values and tax bases of the acquired assets as at 31 December 2016 and is calculated using the Australian corporate tax rate of 30%.
- A transfer within contributed equity of A\$2,183.5 million from SCNs to Shares on the conversion of Yanzhou's SCNs.
- Elimination of Coal & Allied's pre-acquisition contributed equity of A\$59.7 million, reserves of A\$10.3 million and retained earnings of A\$1,266.9 million.

**(ii) MDP Tag-along Agreement and Glencore Transaction**

The Pro Forma Historical Consolidated Balance Sheet as at 31 December 2016 includes the following pro forma adjustments as if the MDP Tag-along Agreement and Glencore Transaction had been completed on 31 December 2016.

**(A) MDP Tag-along Acquisition**

- A decrease in cash of A\$10.5 million to reflect current estimates of the transaction costs to be incurred.
- A decrease in cash of \$52.1 million to reflect a high-level estimate of NSW stamp duty payable 90 days after Completion.
- An increase in current trade and other payables and recognition of other non-current assets of A\$13.3 million (US\$10.0 million) to recognise the Warkworth call option fee payable no later than 6 months after Completion. For the purposes of the pro forma balance sheet it has been assumed the option fee is payable at Completion.

**(B) Glencore Transaction**

- An increase in cash of A\$572.0 million (\$US429 million) representing the consideration receivable on disposal.

The 16.6% HVO interest disposal will have an economic effective date of the Acquisition completion such that the consideration receivable will be adjusted for the net cash inflow or outflow of the 16.6% HVO interest between Completion and completion of the Glencore Transaction. This has not been reflected in the pro forma historical financial information.

The purchase price payable by Glencore for the 16.6% HVO interest assumed nil net debt. The 16.6% HVO balance sheet as at

31 December 2016 included net cash of A\$26.2 million. This amount has been included as an increase to the consideration receivable noted above.

No adjustment for working capital has been assumed.

- A decrease in cash of A\$9.3 million to reflect current estimates of the transaction costs to be incurred.
- 16.6% of the unaudited balance sheet of HVO for the year ended 31 December 2016 has been derecognised, including the proportion of the pro forma adjustments that have been outlined in Section 3.1(b)(i) 'the Acquisition' above that relate to the Glencore Transaction.
- Recognition of a non-contingent royalty receivable of A\$82.2 million to reflect the estimated present value of the non-contingent royalty receivable as part of the disposal assumed to be fully receivable after completion of the Glencore Transaction.
- An increase in cash of \$25.5 million to reflect a high-level estimate of NSW stamp duty on the MDP Tag-along Acquisition recoverable from Glencore.
- A decrease in investments accounted for using the equity method of A\$36.8 million to reflect the reduced pro rata interest in PWCS.
- A decrease in provisions of A\$34.5 million for the BLCF Agreement to recognise the exposure transferred to Glencore.

**(c) Pro Forma Historical Consolidated Statement of Cash Flows**

Set out below is the Pro Forma Historical Consolidated Statement of Cash Flows for the financial year ended 31 December 2016.

A\$ million	Acquisition			MDP Tag-along Agreement & Glencore Transaction		
	Yancoal pro forma information	Coal & Allied pro forma information	Pro forma adjustments	Group before MDP Tag-along Agreement & Glencore Transaction	Pro forma adjustments	Group
<b>Cash flows from operating activities</b>						
Receipts from customers	1,081.2	1,459.3	-	2,540.5	(176.8)	2,363.7
Payments to suppliers and employees	(911.3)	(1,271.0)	-	(2,182.3)	157.5	(2,024.8)
Payment of transaction costs	(2.1)	-	(12.9)	(15.0)	(19.8)	(34.8)
Payment of stamp duty	(7.2)	-	(195.9)	(203.1)	(52.1)	(255.2)
Interest paid <sup>128</sup>	(269.3)	0.2	-	(269.1)	-	(269.1)
Interest received	117.8	17.5	-	135.3	-	135.3
Income tax paid	-	(83.3)	83.3	-	-	-
Dividends received	-	13.1	-	13.1	(2.2)	10.9
<b>Net cash inflow from operating activities</b>	<b>9.1</b>	<b>135.8</b>	<b>(125.5)</b>	<b>19.4</b>	<b>(93.4)</b>	<b>(74.0)</b>
<b>Cash flows from investing activities</b>						
Payments for property, plant and equipment	(312.1)	(40.5)	-	(352.6)	-	(352.6)

<sup>128</sup> Includes bank fees and other charges paid during the period.

A\$ million	Acquisition			MDP Tag-along Agreement & Glencore Transaction		
	Yancoal pro forma information	Coal & Allied pro forma information	Pro forma adjustments	Group before MDP Tag-along Agreement & Glencore Transaction	Pro forma adjustments	Group
Payments for mining tenements	(0.1)	-	-	(0.1)	-	(0.1)
Payments for capitalised exploration and evaluation activities	(0.3)	-	-	(0.3)	-	(0.3)
Proceeds from sale of property, plant and equipment	0.8	9.0	-	9.8	(0.6)	9.2
Payment for acquisition of subsidiary	-	-	(3,578.4)	(3,578.4)	-	(3,578.4)
Proceeds from disposal of joint venture interest	-	-	-	-	598.2	598.2
Advances to jointly controlled entities	(39.8)	-	-	(39.8)	-	(39.8)
Advances to related entities	(35.0)	-	-	(35.0)	-	(35.0)
Cash transferred from restricted accounts	(28.4)	-	-	(28.4)	-	(28.4)
<b>Net cash outflow from investing activities</b>	<b>(414.9)</b>	<b>(31.5)</b>	<b>(3,578.4)</b>	<b>(4,024.8)</b>	<b>597.6</b>	<b>(3,427.2)</b>
<b>Cash flows from financing activities</b>						
Dividends paid to non-controlling interest	-	(0.6)	-	(0.6)	-	(0.6)
Proceeds from the Offer	-	-	3,333.3	3,333.3	-	3,333.3
Repayment of borrowings from associate	623.4	-	-	623.4	-	623.4
Advance of borrowings to associate	(82.7)	-	-	(82.7)	-	(82.7)
Proceeds from interest-bearing liabilities - related entities	250.6	-	-	250.6	-	250.6
Repayment of interest-bearing liabilities	(197.8)	(0.1)	-	(197.9)	-	(197.9)
Payment of Offer costs	-	-	(64.4)	(64.4)	-	(64.4)
Payment of subordinated capital notes distribution	(99.8)	-	99.8	-	-	-
Payment of finance lease liabilities	(16.0)	-	-	(16.0)	-	(16.0)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>477.7</b>	<b>(0.7)</b>	<b>3,368.7</b>	<b>3,845.7</b>	<b>-</b>	<b>3,845.7</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>71.9</b>	<b>103.6</b>	<b>(335.2)</b>	<b>(159.7)</b>	<b>504.2</b>	<b>344.5</b>

(i) **The Acquisition**

The Pro Forma Historical Consolidated Statement of Cash Flows for the year ended 31 December 2016 includes the following pro forma adjustments as if the Acquisition had occurred on 1 January 2016.

- The pro forma adjustments to the audited statement of cash flows of Yancoal for the year ended 31 December 2016 – see Section 1 of Appendix A of this booklet for more detail.

- The pro forma adjustments to the audited statement of cash flows of Coal & Allied for the year ended 31 December 2016 – see Section 2 of Appendix A of this booklet for more detail.
- Proceeds from the Offer of A\$3,333.3 million to recognise the issue of 25 billion Shares at US\$0.10 per Share before Offer costs.
- Payment for acquisition of subsidiary of A\$3,578.4 million comprising A\$3,266.7 million (US\$2,450 million) representing the consideration payable on Completion and A\$311.7 million representing the net debt adjustment.
- Payment of transaction costs of A\$12.9 million to reflect current estimates of the transaction costs to be incurred subsequent to 31 December 2016.
- Payment of stamp duty of A\$195.9 million to reflect a high-level estimate of NSW stamp duty payable 90 days after Completion.
- Payment of Offer costs of A\$64.4 million to reflect current estimates of the costs associated with the Offer.
- Elimination of payment of subordinated capital notes distribution of A\$99.8 million due to the conversion of Yanzhou's SCNs.
- Elimination of the Coal & Allied income tax payment of A\$83.3 million due to the utilisation of tax losses assuming the tax loss recoupment test is passed by the Group. This assumes the A\$83.3 million paid in 2016 relates to post 1 January 2016 tax obligations.

**(ii) The MDP Tag-along Agreement and Glencore Acquisition**

The Pro Forma Historical Consolidated Statement of Cash Flows for the year ended 31 December 2016 includes the following pro forma adjustments as if the MDP Tag-along Agreement and Glencore Transaction had occurred on 1 January 2016.

**(A) MDP Tag-along Agreement**

- Payment of transaction costs of A\$10.5 million to reflect current estimates of the transaction costs to be incurred.
- Payment of stamp duty of A\$52.1 million to reflect a high-level estimate of NSW stamp duty payable 90 days after Completion.

**(B) Glencore Transaction**

- 16.6% of the unaudited statement of cash flows of HVO for the year ended 31 December 2016 has been derecognised, including the proportion of the pro forma adjustments that have been outlined in Section 3(c)(i) *the Acquisition* section above that relate to the Glencore Transaction.
- Proceeds from the disposal of joint venture interest of A\$598.2 million comprising A\$572.0 million (US\$429.0 million) representing the consideration receivable on disposal and A\$26.2 million representing the net debt adjustment.
- Payment of transaction costs of A\$9.3 million to reflect current estimates of the transaction costs to be incurred.
- Receipts from customers of A\$25.5 million to reflect a high-level estimate of NSW stamp duty on the MDP Tag-along Agreement recoverable from Glencore.
- A reduction in dividends received of A\$2.2 million to reflect the reduced interest in PWCS.

**(d) Funding sensitivity**

The Pro Forma Historical Financial Information has been prepared on the basis that the US\$2.5 billion Offer is fully subscribed. As detailed in Section 1.6 any shortfall in the Offer proceeds below US\$2.45 billion will be funded by way of drawdowns under the Yankuang Back-stop Facility up to a facility of US\$1 billion. The impact of any funding shortfall is discussed in more detail in Section 4.4(c).

## 3.2 Management discussion and analysis

Set out below is a discussion of the factors which affected the operations and financial performance of the Company and Coal & Allied in the financial year ended 31 December 2016, as set out in Section 3.1.

### (a) Historical financial information of Yancoal

#### (i) Pro Forma Historical Consolidated Income Statement (Section 3.1(a))

The key drivers of the Company's earnings are:

- international coal prices for both metallurgical and thermal coal, which are generally denominated in US\$;
- the US\$ to A\$ exchange rate, which impacts the conversion of coal revenues to A\$;
- mining costs, which are heavily influenced by changing geology (such as strip-ratio of open cut mines, underground geology and seam thicknesses) and related mine plans (e.g. the number of long-wall moves per annum for underground operations); and
- financing costs.

Coal prices improved in the second half of 2016 as China implemented supply side reforms which involved the NDRC cutting back production from 330 days to 276 days. This removed a significant amount of supply from the market and led to prices increasing to levels not seen in the coal market since 2012. Subsequently the NDRC relaxed its policy in September and October of 2016 by announcing that some mines would be able to increase production back to 330 days with this impacting prices from December. In addition, a strengthening in the steel market saw an improvement in the demand for coking coals. China's operating steel production capacity increased by 36.5 million tonnes in 2016, and world crude steel production reached 1,628.5 million tonnes for the year, up by 0.8% compared to 2015.

- Thermal - the global COAL Weekly NEWC 6000NAR price began 2016 at US\$49.60/t, peaked in November at US\$109.69/t and ended 2016 at US\$94.44/t.
- Metallurgical - the Platts SSCC spot price began 2016 at US\$63.45/t, peaked in November at US\$145.70/t and ended the year at US\$123.60/t. The JSM benchmark SSCC price for the January to March quarter settled at US\$66/t and increased to US\$130/t for the October to December quarter.

Revenue for the year was A\$1,347.6 million and mainly comprised revenue from coal sales of A\$1,143.5 million, including coal purchases and interest income of A\$156.6 million.

The average ex-mine sales price achieved (excluding Middlemount) was US\$60/t (A\$80/t) on ex-mine sales of 11.5Mt comprising 75% thermal and 25% metallurgical.

The US\$:A\$ exchange rate started the year at 0.73 and finished at 0.72 with an average of 0.74.

Operating EBITDA was A\$338.6 million supported by further decreases in FOB cash costs delivering an average FOB cash cost of A\$60/t (excluding royalties and Middlemount). Saleable production was 11.5Mt comprising Moolarben 7.5Mt equity, Yarrabee 3.1Mt and Stratford Duralie 0.9Mt.

Depreciation and amortisation was A\$132.6 million mainly comprising property, plant and equipment and mining tenements.

Financing costs were A\$321.1 million including bank debt interest and interest and guarantee fees paid to Yanzhou.

Fair value losses recycled from the hedge reserve of A\$133.3 million represent non-cash foreign exchange rate losses on the Group's US\$ denominated loans hedged against future US\$ coal sales. The gain or loss is recycled to the income statement in the half year that coincides with the scheduled maturity date of the loan.

Stamp duty expensed of A\$12.2 million relates to the de-recognition of a stamp duty receivable recognised on a previous acquisition.

Transaction costs of A\$3.1 million represents the professional fees incurred on the Acquisition during 2016.

Re-measurement of royalty of A\$6.4 million represents the accounting requirement to fair value the Middlemount coal sales royalty of 4% of trimmed sales recognised as a receivable.

Loss before tax for the year was A\$270.1 million driven by the positive operating EBITDA of the sites being offset by the non-cash hedge reversal loss of A\$133.3 million and the Company's financing costs of A\$321.1 million.

Tax benefit of A\$64.2 million represents an effective tax rate of 20% which is lower than the statutory rate of 30% for companies primarily due to A\$18.7 million of thin capitalisation denials.

**(ii) Pro Forma Historical Consolidated Statement of Cash Flows (Section 3.1(c))**

During the year, the Company had a cash inflow from operations of A\$9.1 million including a net cash inflow from receipts from customers less payments to suppliers and employees of A\$169.9 million reflecting the positive operating result of the sites.

During the year Yancoal made a further investment in its operations of A\$414.9 million including A\$312.1 million in property, plant and equipment mainly in support of the expansion of the Company's Moolarben mine including the expansion of the existing open cut operations and the development of an underground operation. Other investing cash flows included A\$39.8 million provided to the Moolarben joint venture and A\$35.0 million to Yancoal International.

Net financing activity cash inflows totalled A\$477.7 million including A\$623.4 million received on the Company's revolver facility provided to Watagan and A\$250.6 million of new loans provided by Yanzhou. This was partially offset by A\$197.8 million of external loans repaid and A\$99.8 million of SCN distributions paid.

**(b) Historic financial information of Coal & Allied**

**(i) Pro Forma Historical Consolidated Income Statement (Section 3.1(a))**

The key drivers of Coal & Allied's earnings are:

- international coal prices for both metallurgical and thermal coal, which are generally denominated in US\$;
- the A\$:US\$ exchange rate, which impacts the conversion of coal revenues to A\$, and
- mining costs, which are heavily influenced by changing geology (such as strip-ratio of open cut mines and seam thicknesses) and related mine plans.

Revenue for the year was A\$1,640.7 million and mainly comprises revenue from coal sales, including coal purchases and interest income.



The average ex-mine sales price achieved was US\$67/t (A\$91/t) on ex-mine sales of 17.2Mt comprising 77% thermal and 23% metallurgical tonnes.

The US\$:A\$ exchange rate started the year at 0.73 and finished at 0.72 with an average of 0.74.

Operating EBITDA was A\$475.4 million supported by decreases in FOB cash costs delivering an average FOB cash cost of A\$57/t (excluding royalties). Saleable production was 17.1Mt comprising HVO 9.2Mt equity and MTW 7.9Mt.

Depreciation and amortisation was A\$122.3 million mainly comprising property, plant and equipment including mining properties.

Financing costs were A\$5.9 million mainly comprising unwind of discounts.

Profit before tax for the year was A\$347.2 million driven by the positive operating EBITDA of the sites.

Tax expense of A\$100.3 million represents an effective tax rate of 29%.

**(ii) Pro Forma Historical Consolidated Statement of Cash Flows (Section 3.1(c))**

During the year Coal & Allied had a cash inflow from operations of A\$135.8 million including a net cash inflow from receipts from customers less payments to suppliers and employees of A\$188.3 million reflecting the positive operating result of the sites. Income tax payments of A\$83.3 million were made during the year and dividends of A\$13.1 million were received mainly from PWCS.

Coal & Allied made a further investment in property, plant and equipment of A\$40.5 million and received A\$9.0 million from the sale of property plant and equipment.

## 4. Risk factors

### 4.1 General

The Company's operations are subject to a number of risks which may impact on its future performance and forecasts. Before subscribing for New Shares or Additional New Shares, Eligible Shareholders should carefully consider and evaluate the Company and its business and whether the New Shares or Additional New Shares are suitable to acquire having regard to their own investment objectives and financial circumstances and taking into consideration the material risk factors.

### 4.2 Risks associated with the Acquisition

#### (a) Satisfaction of conditions related to the Acquisition

The Acquisition remains conditional on receipt of approval of Yanzhou shareholders. This approval is expected to be obtained at a meeting of Yanzhou shareholders to be held on 25 August 2017. Yankuang, which holds a majority of the shares in Yanzhou, has indicated that it will vote in favour of the resolution to approve the Acquisition.

#### (b) Risks associated with Coal & Allied and the assets held by it

The Acquisition follows due diligence undertaken by the Company in respect of Coal & Allied and the assets held by it, which relied, in part, on the review of financial and other information provided by, or on behalf of, Coal & Allied.

The Company has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. In addition, the Company has prepared (and made assumptions in the preparation of) the financial information relating to Coal & Allied on a stand-alone basis and also to the Combined Group post-completion of the Acquisition included in this booklet in reliance on financial information and other information provided by, or on behalf of, Coal & Allied. The Company is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to, and relied upon by, the Company in its due diligence process and its preparation of this booklet proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of Coal & Allied and/or the Combined Group may be materially different to the financial position and performance expected by the Company and reflected in this booklet. Investors should also note that there is no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the Acquisition have been identified. Therefore, there is a risk that unforeseen issues and risks may arise, which may also have a material impact on the Company.

If the Acquisition is completed, the Company will become directly or indirectly liable for any liabilities that Coal & Allied has incurred in the past, including liabilities which were not identified as part of the due diligence enquiries it undertook in connection with the Acquisition or which are greater than expected, and for which the protection (in the form of insurance, representations and warranties and indemnities) negotiated by the Company in connection with its agreement to acquire Coal & Allied turns out to be inadequate. Such liabilities may adversely affect the financial performance or position of the Group post-Acquisition.

The Company will also be subject to the risk that adverse changes occur in Coal & Allied's business, either before or after completion of the Acquisition.

#### (c) Integration issues, disruptions and potential costs of achieving synergies

The Acquisition involves the integration of the Coal & Allied business, which previously operated independently from the Company and the establishment of the HVO joint venture arising following completion of the Glencore Transaction. The long-term success of the Company will depend, amongst other things, on the success of management in integrating the respective businesses of the Company and Coal & Allied and smoothly operating the HVO joint venture. While the Company expects that value can be created through the realisation of cost savings and other synergies, there is a risk that the integration of the Coal & Allied business may not result in the full realisation of these cost savings and other

synergies due to various factors including unexpected delays, challenges, liabilities and costs in relation, but not limited, to integrating operating and management systems and the loss of key personnel of the Company.

If the integration is not achieved in an orderly manner, the full benefits and cost savings may take longer than expected to be achieved, may only be achieved in part, or may not be achieved at all. This could adversely impact the Company's future financial performance and position, and the Company's future prospects.

**(d) MDP Tag-along Agreement transaction risks**

Yancoal has entered into the Glencore Transaction, under which Glencore has agreed to procure that its subsidiary (Anotero) acquires the MDP HVO interest subject to MDP agreeing to that transaction and receipt of regulatory approvals within 10 months of Completion.

There is a risk that MDP will withhold its consent to the nomination of Glencore as the purchaser of the MDP HVO Interest. In this scenario, the Company and Glencore will seek to implement other arrangement(s) for an equivalent joint venture outcome.

However, any acquisition by Glencore of the MDP HVO Interest would be subject to Glencore receiving necessary regulatory approvals. If these regulatory approvals are not obtained, or if the Glencore Transaction terminates for any other reason, there is a risk that the Company may be required to acquire the MDP HVO Interest. In this scenario, the Company would need to source alternative funding to pay the purchase price for the MDP HVO Interest to the extent that the Company is unable at that time to fund the purchase price from the free cashflow and/or existing debt facilities. The Company's future prospects, could be adversely affected to the extent that such funding is unavailable or is only available on unattractive terms.

If the Company is required to purchase the MDP HVO Interest, the Company will be liable for NSW stamp duty of approximately A\$52.1 million based on a high-level estimate. However, if MDP do not consent to the Glencore Transaction, and the Company and Glencore establish the joint venture through other arrangements, Glencore will contribute 49% of any stamp duty payable by the Company on acquiring the MDP HVO Interest, representing approximately A\$25.5 million, resulting in a potential net exposure to the Company of \$26.1 million. This position is reflected in the Pro Forma Historical Financial Information in Section 3.1.

**(e) Wallaby Scrub Road approval**

The closure of Wallaby Scrub Road is required in order to undertake all of the mining activities approved by the State Significant Development Consent 6464 (which supports the westward expansion of the Warkworth mine).

A planning approval has been granted to mine Wallaby Scrub Road by the independent 'Planning Assessment Commission' under the *Environmental Planning & Assessment Act 1979* (NSW). The planning approval allows open cut mining through the existing alignment of Wallaby Scrub Road. In addition, the NSW Minister for Resources and Energy (**Minister**) has granted a mining lease over the road to permit mining to occur.

A public consultation process related to the road closure has been undertaken and a report is being prepared for consideration by Singleton Shire Council. The proponent has requested Singleton Shire Council, as the roads authority, to make an application under the *Roads Act 1993* (NSW) to the Minister for Lands and Forestry to close Wallaby Scrub Road. Once Singleton Shire Council has made that application, the Minister may close the road by publication in the NSW Government Gazette. However, the Minister may not close Wallaby Scrub Road unless Singleton Shire Council consents to its closure under the *Roads Act 1993* (NSW). Singleton Shire Council has expressly reserved its right to consent to the closure until it has considered the consultation report, to be issued to Singleton Shire Council at the completion of the public consultation process. Accordingly, a residual risk remains that Singleton Shire Council will not provide its consent to the closure of Wallaby Scrub Road and that an alternative approach may need to be considered.

Until such time as the road is formally closed, Singleton Shire Council will not support Coal & Allied's utilisation of the road for mining purposes.

If Wallaby Scrub Road has not been closed to the extent necessary to enable open-cut mining through the relevant areas of MTW within 5 years of completion of the Acquisition, ACH must pay US\$90 million to the Company, which will be treated as a reduction of the Company's total purchase price for the Acquisition. If the price adjustment is payable by ACH then the royalty payable on coal produced from the areas of MTW affected by the failure to obtain the relevant approvals will not be subject to the benchmark thermal coal price threshold price condition described in section 7.1.

**(f) Protected industrial action**

Like any company in the resources sector, the Company may become subject to industrial action. The HVO 2016 enterprise agreement and the MTW enterprise agreements which cover the proportion of the HVO and MTW workforces performing production and engineering work both nominally expired on 1 March 2017. As replacement agreements were not negotiated before this date, the HVO and MTW businesses are exposed to the possibility of employees taking protected industrial action until such time as replacement agreements are entered into.

**(g) Bank guarantee facilities**

The Company intends to replace the CBA facility described in Section 2.12(b)(iii) of this booklet, including for the purposes of obtaining bank guarantees in relation to the assets acquired pursuant to the Acquisition following its completion. There is no guarantee that alternative financing arrangements will be available on acceptable terms (or at all) and, should this occur, this may have a material adverse effect on the Company's business, financial position or performance. For details regarding the status of this proposed bank guarantee facility, see section 7.8.

**(h) Pro forma market valuation**

Following completion of the Acquisition and the Offer, the Company will have a significantly expanded capital base and earnings base. Following the issue of New Shares under the Offer, and the draw-down of new debt facilities to fund the Acquisition, the Company will trade on implied valuation multiples, including earnings and cashflow multiples such as enterprise value-to-EBITDA, price-to-earnings and price-to-cashflow.

There is a risk that the Company's implied valuation multiples will exceed those of listed comparable companies both in Australia and globally. No assurance can be provided on the after-market performance of the New Shares under the Offer. The potential risk of poor after-market performance may be exacerbated by any perception that the Company is 'over-valued' relative to peers on a trading multiples basis.

**(i) Pro forma leverage**

Following the Acquisition and the Offer, the Company will have a significantly expanded debt and equity capital base. Assuming US\$2.5 billion of new equity is raised under the Offer as planned, the Company's pro forma debt, post the Acquisition, will be equal to US\$3,096 million, which would imply a pro forma net debt-to-EBITDA multiple of 3.1x<sup>129</sup><sup>130</sup>, on a 2017 LTM basis. This leverage multiple exceeds that of listed comparable companies both in Australia and globally.

The impact of this elevated leverage on the performance of Share price following completion of the Acquisition and the Offer is unknown and could be materially adverse. In particular, any adverse movements in prevailing commodity prices or the operational performance of the Company could have increased adverse effects on the Company's equity valuation and returns given this heightened leverage.

**(j) BLCP Agreement**

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<sup>129</sup> Annualised based on CY17 YTD financials (as at 30 June 2017); sourced from unaudited management accounts and adjusted for run-rate synergies as described in 2.2(b)). These annualised figures are not a CY17 forecast, and simply reflect a doubling of first half results. They are also normalised for one-off events (i.e. transaction costs, stamp duty).

<sup>130</sup> Unaudited last 12 months' EBITDA to 30 June 2017, pro forma for the Coal & Allied Acquisition and Glencore Transaction and based on a US\$:A\$ FX rate of 0.75. EBITDA includes run-rate synergies assuming Yancoal ultimately has a 51% interest in HVO, excludes incremental synergies from the Glencore Transaction and is adjusted for the before tax impact of one-off items including fair value losses recycled on hedge reserve, transaction costs (including stamp duty) and revaluation of royalty.

As outlined in Section 2.8(e) above, the BLCP Agreement is a long-term offtake agreement for the supply of up to 3,627,000 tonnes of coal per year on a calorific equivalent basis (with BLCP being required to purchase a minimum of 2,560,000 tonnes of coal per year) with a term until January 2032 (with the option tonnage at BLCP's election).

The pricing under the BLCP Agreement is determined by reference to certain reference prices for thermal coal supplied to the Japanese market subject to a fixed price cap (adjusted annually in line with US CPI).

If Rio Tinto is unable to obtain consent to novate the BLCP Agreement to the Company prior to completion of the Acquisition, the Company (through YAS) and ACH will enter into the Coal Supply and Transportation Agreement under which the Company will supply coal to ACH on a back-to-back basis to the BLCP Agreement following completion of the Acquisition until such time as a direct agreement between BLCP and YAS may be entered into.

In either scenario, there is a risk that the Company will be required to deliver significant volumes of HVO and MTW production to BLCP under the BLCP Agreement, which may affect the overall financial return to the Company from its investment in HVO and MTW due to the price cap included in the BLCP Agreement.

There is also risk that the Company may be required to source coal from third parties to meet the specification requirements of the BLCP Agreement (such as by blending that third party coal with HVO and MTW coal). Whilst the supplier can nominate additional coal mines as 'Approved Coal Brands' following the Acquisition), this requires a testing process and the consent of BLCP to be obtained (not to be unreasonably withheld based on the results of the testing). Glencore has agreed to assume responsibility for a portion of the coal required to be delivered under BLCP Agreement as part of the Glencore Transaction. Further details are set out in Section 7 below.

### **4.3 Risks associated with an investment in the Company**

The future operating performance of the Company and the value of an investment in the New Shares and Additional New Shares may also be affected by risks relating to the Company's business. Some of these risks are specific to the Company while others relate to economic conditions and the general industry and markets in which the Company operates.

Where practicable, the Company seeks to implement risk mitigation strategies to minimise its exposure to some of the risks outlined below. However, there can be no assurance that such strategies will protect the Company from these risks. Other risks are beyond the Company's control and cannot be mitigated. The occurrence of any such risks could adversely affect the Company's financial position and performance and the value of the New Shares and Additional New Shares. The risks listed below are not purported to be exhaustive and there is no assurance that the importance of different risks will not change or other risks will not emerge.

#### **(a) Funding requirements**

The amount of future funding required by the Group will depend on a number of factors, including the performance of the Company's business at that time. The Group's business operations and cashflow are highly sensitive to any fluctuation in the US\$ coal price, movements in the A\$:US\$ exchange rate and coal production from its operations.

In developing its business plan and operating budget, the Company has made certain assumptions regarding coal prices, the A\$:US\$ exchange rate, future production levels and other factors which determine the Group's financial performance.

If a funding shortfall materialises, the Group may need to raise substantial additional short term or long term debt or equity. The Group's capacity to secure the requisite level of funding will depend on the amount of funding required, the performance and future prospects of its business and a number of other factors, including US\$ coal prices, interest rates, economic conditions, debt market conditions, equity market condition, and future levels of Yanzhou support.

To the extent that the Group is not able to secure additional financing (whether debt or equity) on acceptable terms from third parties, the Group will continue to rely on financial support from Yanzhou (see Section 1.6 for further details).

As at 31 December 2016, the Company had a loan receivable from Watagan of A\$775 million (re-drawable up to A\$1.36 billion) which is subject to impairment testing. There is a guarantee provided by Yankuang (being the ultimate parent entity of the Company) to indemnify the Company for any amounts due and payable under the loan which are not paid by Watagan.

Yanzhou's and Yankuang's capacity to meet their respective funding commitments will depend on their financial position at the time and their capacity to raise the necessary funds to meet the commitments. Yancoal's capacity to source further funding from Yanzhou will depend on Yanzhou's willingness and financial capacity to provide that funding. There can be no assurance that Yanzhou will be in a position to provide financial support to Yancoal or that Yankuang will be in a position to meet its obligations under the guarantee in respect of the Watagan Agreements.

**(b) Refinancing risk**

No assurance can be given that any refinancing of the Group's existing committed credit facilities will be available at all or on terms favourable to the Group as and when the existing facilities mature. The Group's capacity to secure the requisite level of funding will depend on the amount of funding required, the performance and future prospects of its business and a number of other factors, including US\$ coal prices, interest rates, economic conditions, debt market conditions, equity market conditions and future levels of Yanzhou support.

More specifically, there is a refinancing risk in 2020, 2021 and 2022, where US\$2.6 billion of debt falls due for repayment and the Group will need to refinance this debt. If the Company breaches any of the bank funding repayment obligations, or breaches financial covenants, the senior lenders could cancel the facility and declare all loans, including any accrued interest, and all other amounts accrued under the related facility documents, immediately due and payable.

A number of investment groups and financial institutions have announced either a change in, or intention to consider a change in, investment mandates so their groups can no longer invest in or lend to companies with coal exposure. This may impact the Group's ability to attract new financing.

**(c) Financial covenants**

The Group is subject to various financial covenants in relation to its banking facilities, including the BOC and CCB Syndicated Facility, one of the BOC Facilities and the CBA facility. These covenants may, for example, require one or more Group members to maintain a minimum net worth, net tangible assets or interest cover ratio or a maximum gearing or leverage ratio. Factors such as adverse movements in interest rates and coal prices, appreciation of the A\$ and deterioration of the financial performance of the Group's business or change in accounting standards could lead to a breach in financial covenants. If there is such a breach by the relevant Group members, the relevant lenders may require their loans to be repaid immediately and/or cancel the further availability of their facilities. Some covenant breaches may not be an immediate default but may restrict the ability of Group members to make distributions or otherwise limit expenditure.

In order to complete the Acquisition and associated transactions, as noted elsewhere in this booklet, various consents are required under the BOC and CCB Syndicated Facility and the BOC Facilities, and the Group proposes to replace the CBA facility with a syndicated facility. It is very likely that those changes to the financing arrangements will include adjustments to the various financial covenants to reflect the changes to the Group's financial position and/or to avoid breaches of the existing covenants which may arise as a result of the Acquisition and associated transactions. If the relevant consents and expanded facilities are not obtained, this may impact the Group's ability to complete the Acquisition in its current form. Further details regarding the status of such covenant approvals and the proposed bank guarantee facility are set out in Sections 7.8 and 7.9.

**(d) Yanzhou support**

Yanzhou has undertaken to the Company that unless revoked by giving not less than 24 months' notice (or such shorter period as the Company may agree), for so long as Yanzhou

owns at least 51% of the Shares, Yanzhou will ensure that the Company continues to operate so that it remains solvent. It has recently reconfirmed to the Company that this undertaking remains in place on its current terms, and that Yanzhou has the financial capacity to perform its obligations under it.

There is no certainty that the Company will remain solvent, as the Yanzhou support is revocable by Yanzhou on 24 months' notice and is conditional on Yanzhou owning at least 51% of the Shares.<sup>131</sup> In addition, depending on the form and terms of any funding to be provided by Yanzhou, minority Shareholder approval and other regulatory approvals may be required before that funding could be provided, and any such approvals may not be forthcoming. The Yanzhou support does not require Yanzhou to fund the Company in a manner which is non-dilutive to other Shareholders or to provide funding on non-commercial terms, and is also dependent on Yanzhou's financial capacity to perform its obligations under the Yanzhou support as and when called upon to do so.

**(e) Yankuang Back-stop Facility approvals risk**

Yankuang has provided a binding, irrevocable letter addressed to the Company (represented by its Independent Board Committee), undertaking to the Company to provide or otherwise procure its affiliates to provide the Yankuang Back-stop Facility on the terms set out in section 2.11(d)(iv) of this booklet. The provision of funds by Yankuang under the Yankuang Back-stop Facility is conditional on it receiving all necessary PRC regulatory approvals including an approval from the State Administration of Foreign Exchange of the PRC. Whilst Yankuang has undertaken to use its best endeavours to procure the receipt of all necessary PRC regulatory approvals for the provision of funds, there can be no guarantee that these regulatory approvals will be received.

Furthermore, if the Company needs to draw on the Yankuang Back-stop Facility, this will increase the pro forma leverage of the Company (see the sensitivity table at Section 4.4(c) below).

**(f) Adverse foreign exchange rate movements and change to functional currency**

Foreign exchange risk is the risk of the Group sustaining loss through adverse movements in exchange rates. Such losses can impact the Group's financial position and performance and the level of additional funding required to support the Group's businesses.

The liabilities, earnings and cash flows of the Group are influenced by movements in exchange rates, especially movements in the A\$:US\$ exchange rate.

While the Group operates entirely in Australia and its costs are primarily denominated in its functional currency, the A\$, foreign currency exposure arises particularly in relation to coal supply contracts, which generally are priced and payable in US\$, procurement of imported plant and equipment, which can be priced in US\$ or other foreign currencies, and debt denominated in US\$.

The impact of exchange rate movements will vary depending on factors such as the nature, magnitude and duration of the movements, the extent to which currency risk is hedged under forward exchange contracts or other hedging instruments and the terms of these contracts.

The hedging policy of the Group aims to protect against the volatility of cash expenditures or reduced collection in the abovementioned transactions as well as to reduce the volatility of profit or loss for retranslation of US dollar denominated loans at each period end.

**(i) Hedging through bank issued instruments**

Operating foreign exchange risk that arises from firm commitments or highly probable transactions is managed through the use of bank issued forward foreign currency contracts and collar option contracts. The Group hedges a portion of contracted US dollar sales and asset purchases settled in foreign currencies in

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<sup>131</sup> In the event that the issue of New Shares under the Offer is likely to reduce Yanzhou's shareholding in the Company below 51%, the Company will, to the extent necessary, issue fewer shares to the Underwriters such that Yanzhou's shareholding in the Company will remain at no less than 51% following completion of the Offer. This would result in the Offer raising less than intended.

each currency to mitigate the adverse impact on cash flow due to the future rise or fall in Australian dollars against the relevant currencies.

**(ii) Natural cash flow hedge**

The Group currently does not use bank issued instruments to hedge foreign exchange risks in respect of US\$ denominated loans; however, the scheduled repayment of the principal on US\$ loans is designated to hedge the cash flow risks on the portion of forecast US\$ sales that are not hedged through bank issued instruments ('natural cash flow hedge'). US\$ loan repayments up to a six-month period are designated to hedge the forecast US\$ sales during the same period after the designation of the hedge relationship based on a dollar for dollar basis until the hedge ratio reaches one.

Unrealised foreign exchange gains or losses arising on the translation of hedged US\$ denominated loans are deferred on the balance sheet to a cash flow hedge reserve in equity. Deferred gains or losses are recycled to the income statement during the six-month period that the loan is scheduled to be repaid.

At 31 December 2016, the Group had A\$1,166.6 million of unrealised foreign exchange losses, before tax (A\$816.6 million after tax), deferred on its balance sheet in equity through its natural cash flow hedge.

**(iii) Acquisition consideration**

The consideration for the Acquisition is an upfront payment of US\$2.45 billion and non-contingent royalty payments of US\$240 million. The accounting for these payments will be made on the date of payment at the effective A\$:US\$ exchange rate on that date.

**(iv) Change of functional currency**

AAS require the Company to adopt a functional currency that reflects the primary economic environment in which the entity operates. Currently, the Company's functional currency is the A\$ however the Company is increasingly exposed to the A\$:US\$ exchange rate through US dollar denominated coal revenues, operating expenditures, and funding expenses.

The Company will need to re-assess its functional currency under AAS due to the increased dominance of the US\$ on its operations and funding sources following the Acquisition. In the event, of a change in functional currency, the Company will be required to prepare and present its financial statements in US\$.

A change to a US\$ functional currency extinguishes the A\$:US\$ foreign exchange risk on US\$ borrowings and US\$ revenue requiring the immediate reversal of the natural cash flow hedge reserve to the income statement as there is no longer a foreign exchange hedge relationship. At 31 December 2016, the unrealised losses of A\$1,166.6 million before tax were deferred in the cash flow hedge reserve.

**(g) Coal prices and coal demand risk**

The Group generates revenue from the sale of coal. In developing its business plan and operating budget, the Group makes certain assumptions regarding future coal prices and demand for coal. The prices which the Group will receive for its coal depend on numerous market factors beyond its control and, accordingly, some underlying coal price assumptions relied on by the Group may materially change and actual coal prices and demand may differ materially from those expected.

The prices for coal are determined predominantly by world markets, which are affected by numerous factors, including the outcome of future sale contract negotiations, general economic activity, industrial production levels, changes in foreign exchange rates, changes in energy demand and demand for steel, changes in the supply of seaborne coal, technological changes, changes in production levels and events interfering with supply, changes in international freight rates or other transportation infrastructure and costs, the costs of other commodities and substitutes for coal, market changes in coal quality requirements, government regulations which restrict the use of coal, and tax impositions on



the resources industry, all of which are outside the control of the Group and may have a material adverse impact on coal prices and demand.

In addition, the coal price is highly dependent on the outlook for coal consumption in large Asian economies, such as China, Japan and India, as well as any changes in government policy regarding coal or energy policy in those countries.

Absent offsetting factors, significant and sustained adverse movements in demand for coal and, consequently, coal prices (both generally and in relation to particular types and classes of coal) may have a material adverse impact on the ongoing financial performance and financial position of the Group or may result in the Group not proceeding with the development of new mines and projects due to such development not being economically viable.

From the end of 2015 to June 2017:

- Semi-soft coking prices increased by 46%;
- PCI prices increased by 52%; and
- Thermal coal prices increased by 53%.

Any weakening in coal prices or any deterioration prompted by further reduction in demand or addition of new tonnes to the seaborne market (for example from thermal coal exports from the US) would have a material adverse impact on the financial performance of the Group and its capacity to undertake development projects.

**(h) Coal production**

Improvement in the Group's financial performance is dependent on the Group being able to sustain or increase coal production and decrease operating costs on a per tonne basis. The Group's success or failure in improving productivity will become particularly important to the Group's financial performance if the coal price remains at current levels or falls further.

The Group's coal production can be impacted by a number of factors, including unforeseen geological or geotechnical issues (particularly in the Group's underground operations), abnormal wet weather conditions, unforeseen delays or complexities in installing and operating longwall mining systems, protracted breakdown of coal handling infrastructure and other mining equipment and rail and port breakdowns and outages. Regulatory factors and the occurrence of other operating risks can also limit production (see further in Sections 4.3(k) and 4.3(p) respectively of this booklet).

**(i) Debt cost**

The majority of the Group's loans are US\$ LIBOR based floating rate loans and currently there are no interest rate hedging arrangements in place. As a result, any increase in the US\$ LIBOR from current levels will expose the Group to higher debt costs.

**(j) Taxation risks**

In addition to the corporate income tax imposed on the Group, the Group is required to pay government royalties, direct and indirect taxes and other imposts in the jurisdictions in which the Group will operate. The Group may be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies under Australian laws.

The potential of the Group to obtain the benefit of existing tax losses and claim other tax attributes will depend on future circumstances and may be affected by changes in ownership of both Yanzhou and Yancoal, business activities, thin capitalisation thresholds, tax bases and any other conditions relating to the use of tax losses or other attributes of the group. The ability to use the Group's carried forward losses will depend on the Group's continued satisfaction of the loss recoupment tests under Australian tax laws and be subject to the availability of sufficient future taxable profits.

To the extent that the Offer is not fully subscribed and debt is utilised to fund part of the Acquisition, a denial of deductions in addition to interest on such debt, may arise.

**(k) Regulatory and other approvals**

The ability of the Group to meet its long-term production target profile depends on (amongst other things) the Group being able to obtain on a timely basis, and maintain, all necessary regulatory approvals (including any approvals arising under applicable mining laws, environmental regulations and other laws) for its current operations and expansion and growth projects, including obtaining planning approvals, land access, land owner consents and addressing any native title issues, impacts on the environment and objections from local communities.

The requirement to obtain approvals and to address potential and actual issues for existing and future mining projects is common to all companies in the coal sector. However, there is no assurance or guarantee that the Group will be in a position to secure any or all of the required consents, approvals and rights necessary to maintain its current production profile from its existing operations or to develop its growth projects in a manner which will result in profitable mining operations and the achievement of its long-term production targets. If these approvals (or other approvals required for the planned production increases) are not obtained, or if conditional or limited approvals are obtained, the economic viability of the relevant projects may be adversely affected, which may in turn result in the value of the relevant assets being impaired.

The Group continues to engage openly and transparently with both State and Federal Government approval bodies in working to deliver the required approvals in a timely manner.

**(l) Estimates of Resources and Reserves and geology**

The volume and quality of the coal that the Group recovers may be less than the Resource and Reserve estimates included in this booklet. Resource and Reserve estimates are expressions of judgement based on knowledge, experience and industry practice. There are risks associated with such estimates, including that coal mined may be of a different quality or grade, tonnage or strip ratio from those in the estimates and the ability to economically extract and process the coal may not eventuate. Resource and Reserve estimates are necessarily imprecise and depend to some extent on interpretations and geological assumptions, coal prices, cost assumptions and statistical inferences which may ultimately prove to be unreliable.

Coal Resource and Coal Reserve estimates are regularly revised based on actual production experience or new information and could therefore be expected to change. Furthermore, should the Group encounter mineralisation or formations different from those predicted by past drilling, sampling and similar examinations, Coal Resource and Coal Reserve estimates may have to be adjusted and mining plans, coal processing and infrastructure may have to be altered in a way that might adversely affect their operations. Moreover, a decline in the price of coal, stabilisation at a price lower than recent levels, increases in production costs, decreases in recovery rates or changes in applicable laws and regulations, including environmental, permitting, title or tax regulations, that are adverse to the Group, may mean the tonnage of coal that can be feasibly extracted may be significantly lower than the Coal Resource and Coal Reserve estimates indicated in this booklet. If it is determined that mining of certain Coal Reserves is uneconomic, this may lead to a reduction in the Group's aggregate Coal Reserve estimates.

Material changes in Coal Reserve estimates, grades, strip ratios, washing yields or recovery rates may affect the economic viability of projects. Coal Reserve estimates should not be interpreted as assurances of mine life or of the profitability of current or future operations.

If the Group's actual Coal Resource and Reserve estimates are less than current estimates, the Group's prospects, value, business, results of operations and financial condition may be materially adversely affected.

Certain projects of the Group are focused on exploration activities. The potential of these projects will be further defined as exploration progresses. The potential quantity and quality of the Coal Resources within these projects have not been defined sufficiently to determine the viability of each and require further exploration activities to be completed to define the Coal Resources to a higher level of confidence.

**(m) Uncertainty in costs forecast**

The business operations and financial condition of the Group may vary with fluctuations in production and capital costs. Changes in the costs of mining and processing operations as well as capital costs could occur, including as a result of unforeseen events, such as international and local economic and political events (including movement in exchange rates) or unexpected geological or mining conditions, and could have material adverse financial consequences for the Group.

**(n) Take-or-pay liabilities**

Port and rail (above rail and below rail) capacity is generally contracted via long-term take-or-pay contracts. The Group will generally be required to pay for its contracted rail or port tonnage irrespective of whether it is utilised. Unused port or rail capacity can arise as a result of circumstances including insufficient production from a given mine, a mismatch between port and rail capacity for a mine, or an inability to transfer the used capacity due to contractual limitations such as required consent of the provider of the port or rail services, or because the coal must emanate from specified source mines or be loaded onto trains at specified load points.

The Group currently has excess port and rail capacity commitments across its NSW operations, which represents a significant cost to its NSW operations. Delays in the Group's NSW growth projects (such as 'Moolarben Stage 2') may exacerbate the Group's current excess position.

The take-or-pay commitments are estimated to total around A\$57 million in excess of the Group's expected access requirements for the year ending 31 December 2017.

**(o) NCIG and WICET debt**

As a shipper in NCIG and WICET, the Company's source mines are required to maintain a minimum level of Marketable Coal Reserves (11 years' worth of contracted capacity). Non-compliance with this requirement would ultimately result in the termination of the individual contracts and require the Group to pay its share of any outstanding senior debt, currently approximately, A\$1 billion and A\$0.3 billion, respectively.

**(p) Operating risks**

The Group's operations are subject to operating risks that could result in decreased coal production which could reduce their respective revenues. Operational difficulties may impact the amount of coal produced, delay coal deliveries or increase the cost of mining for a varying length of time. These operating risks include (but are not limited to) industrial accidents, mine collapses, cave-ins or other failures relating to mine infrastructure, including tailings dams, interruptions due to inclement or hazardous weather conditions, power interruption, critical equipment failure (in particular any protracted breakdown or issues with any of the Group's coal handling and preparation plant (CHPP) or a major excavator and longwall), fires, and explosions from methane gas or coal dust, accidental mine water discharges, flooding and variations in or unusual or unexpected geological or geotechnical mining conditions (particularly in the Group's underground operations). Such risks could result in damage to applicable mines, personal injury, environmental damage, delays in coal production, decreased coal production, loss of revenue, monetary losses and possible legal liability. Although the Group's insurance policies provide coverage for some of these risks, the amount and scope of insurance cover is limited by market and economic factors and there can be no assurance that these risks would be fully covered by insurances maintained by the Group.

**(q) Injury or accident risks**

If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Group.

**(r) Control of Watagan and arrangements with respect to Ashton, Austar and Donaldson**

In 2015 the Company established a 100% owned subsidiary, Watagan. On 18 February 2016, the Group executed the Watagan Agreements that, on completion, transferred the

Company's 100% owned NSW coal mining operations, being Austar, Ashton and Donaldson to Watagan for a purchase price of A\$1,363.4 million (an amount equal to the book value of the three mines at completion). The purchase was funded by way of a A\$1,363.4 million loan from the Company to Watagan, the outstanding interest and principal of this loan is guaranteed by Yankuang, Yancoal's ultimate parent. The effective date of these arrangements was 31 March 2016.

On 31 March 2016, Watagan issued US\$775 million of secured debt bonds to three external financiers with a potential further US\$175 million to be issued prior to 30 September 2016, now extended to 30 September 2017. The bonds have a maturity date of 8 January 2025.

Under the terms of the Watagan Agreements, it was determined that upon issuance of the bonds, the Company lost control of Watagan. This loss of control resulted in the Company de-consolidating the consolidated results of Watagan from its consolidated financial statements with effect from 31 March 2016 and the Company began to equity account for its interest in Watagan as an associate.

The assessment of control is performed at a point in time. Accordingly, at the end of the term of the bonds in 2025, or earlier if control over Watagan was determined to pass back to the Company, the Company would need to consolidate Watagan's results and financial position into its consolidated financial statements from the date control was regained, and this re-acquisition would be treated as a business combination under AAS. Additionally, the bondholders have a put option that allows them to put the bonds which were issued under the Watagan Agreements to Yankuang at approximately years three, five, seven and nine of the bond term, or where there has been an event of default, after year three. Exercise of this put option would also result in the Company regaining control of Watagan. The assessment of control is considered a significant judgement.

If control of Watagan is regained by the Company prior to the bonds being repaid, the consolidated balance sheet of the Company would include the US\$775 million (up to US\$950 million) borrowing due to Yankuang.

On regaining control of Watagan, the Company will be required to include the assets and liabilities of Watagan in its consolidated financial statements at fair value. There is a risk that any shortfall in value relative to the outstanding loan balance could result in a loss being recognised.

Given the Company does not control Watagan, there is a risk that decisions may be made by the board of Watagan that are contrary to the Company's interest. The board of Watagan, for example, may decide to award future contracts for mine management, marketing, infrastructure and other corporate services to a third party, leading to a loss of future revenue for the Company.

**(s) Impairment risks**

The Group's balance sheet includes a number of assets that are subject to impairment risk, including mining tenements, exploration and evaluation assets, goodwill, the Middlemount loan and royalty receivable, the Watagan loan receivable and investments accounted for using the equity method.

The value of these assets is derived from the fundamental valuation of the underlying mining operations and as such is subject to many of the risks identified in Section 4.3 including, but not limited to, coal price and demand, foreign exchange, coal production, estimates of reserves and resources, uncertainty in costs forecasts, operating risks, injury and mine closure.

Adverse changes in these risk factors could lead to a reduction in the valuation of the Group's assets and result in an impairment charge being recognised.

***Watagan***

Yancoal has a loan receivable from Watagan of A\$1.36 billion. Watagan is permitted to make early repayments on this loan and to re-draw against such repayments. The loan is subject to accounting impairment testing. There is a guarantee provided by Yankuang to indemnify the Company for any amounts due and payable under this loan which are not

paid by Watagan. As at 31 December 2016, the loan receivable from Watagan was A\$775 million (re-drawable up to A\$1.36 billion). When control over Watagan is regained (see Section 4.3(r)), Watagan will be subject to business combination accounting that will require the Company to fair value the assets and liabilities acquired from Watagan at the time, and this could result in a deficit to the value of the loan being recognised as a financial loss.

**(t) Investment in WICET**

As at 31 December 2016, the Company held investments in A\$30.6 million E class Wiggins Island preference securities and \$31.5 million Gladstone long term securities issued by WICET.

It is noted that several WICET shareholders have entered administration or insolvency adversely impacting the cash inflows of WICET. WICET is also currently renegotiating its senior debt facility. The outcome of these events could adversely impact the recoverability of the Company's investments.

**(u) Australian Accounting Standards**

AAS are issued by the AASB and are beyond the control of the Company and the Directors. Any changes to AAS or to the interpretation of those standards may have an adverse effect on the reported financial performance or financial position of the Company.

In particular, the accounting treatment for transactions such as the transfer of the NSW mining assets of Ashton, Austar and Donaldson to Watagan (as noted in Section 2.4(b) above) could be reviewed by standard setters and may be subject to change. In the event that the Company is required to reconsolidate Watagan's results and financial position into its consolidated financial statements ahead of the scheduled date in 2025, due to a change to AAS or their interpretation, the reconsolidation may have an adverse effect on the reported financial performance or financial position of the Company.

**(v) Mine closure**

Closure of any of the mines or other operations of the Group before the end of their mine life (e.g. due to environmental, geological, geotechnical, commercial and/or health and safety issues), could trigger significant, closure and rehabilitation expense, employee redundancy costs and other costs or loss of revenues. Many of these costs will also be incurred where mines are closed at the end of their planned mine life or placed on care and maintenance. A move to care and maintenance has the potential to trigger significant employee redundancy costs and a subsequent loss of revenues, as a minimal employee presence is required for ongoing management and rehabilitation of the mine.

If one or more of the relevant sites are closed earlier than anticipated, the Group will be required to fund the closure costs on an expedited basis and potentially lose revenues, which could have an adverse financial effect. In addition, there is a risk that claims may be made arising from environmental remediation upon closure of one or more of the sites.

**(w) Coal supply agreements**

The Group's coal supply agreements typically require the delivery of a fixed or minimum quantity of coal at a location, at a time and over a period stipulated in the agreement. To the extent that any contracted volumes cannot be delivered as agreed, the Group may be liable to pay substantial compensation for the resulting losses, costs and charges (including demurrage) incurred by the buyer.

As customer contracts expire, the Group will be likely to renew contracts with long-term customers, or seek to enter into new contracts with new buyers and markets, depending on the feasibility of this.

Tonnes that are not contracted are sold onto the spot market at either index-linked or fixed price levels. The Group's strategy for 2017 will be to increase its term contracted position as well as to target end-user customers as opposed to traders.

Most of the Group's coal supply agreements also require the delivery of coal meeting specified quality thresholds for characteristics such as moisture content, sulphur content and ash content. Depending on these quality thresholds, coal will be sold into markets that are the highest paying for coal with the relevant qualities.

**(x) Joint ventures and reliance on third parties**

The Group holds a number of joint venture interests and will acquire additional joint venture interests on completion of the Acquisition, including interests in the Middlemount, Moolarben, HVO, MTW, PWCS, NCIG and WICET, with other parties. Decision making, management, marketing and other key aspects of each joint venture (including the ability to contract with related parties) are regulated by agreements between the relevant joint venture participants. Under these agreements, certain decisions require the endorsement of third party joint venture participants and the Group relies on the co-operation of these third parties for the success of its current operations and/or the development of its growth projects and the transportation of increased production.

The Group cannot control the actions of third party joint venture participants, and therefore cannot guarantee that joint ventures will be operated or managed in accordance with the preferred direction or strategy of the Group. There is a risk that the veto rights of, or consents required from, the joint venture partners will prevent the business and assets of a joint venture from being developed, operated and managed in accordance with that preferred direction or strategy.

The Group also uses contractors and other third parties for exploration, mining and other services generally, and is reliant on a number of third parties for the success of its current operations and/or the development of its growth projects. While this is normal for the mining and exploration industry, problems caused by third parties may arise which may have an impact on the performance and operations of the Group. Any failure by counterparties to perform their obligations may have a material adverse effect on the Group and there can be no assurance that the Group will be successful in attempting to enforce its contractual rights through legal action.

**(y) Competition**

The coal industry is highly competitive, and an increase in production or reduction in prices of competing coal from both Australia and overseas may adversely impact the Group's ability to sell its coal products and the price to be attained for sales. Increased competition in the future, including from new competitors, may emerge. This competition may relate not only to coal produced and sold, but also to competition for the acquisition of new projects, which may adversely affect the ability of the Group to acquire new interests on acceptable terms should it wish to make such acquisitions.

Further industry consolidation could result in competitors improving their scale or productivity or competitors may develop lower-cost geological coal resources or develop resources in lower cost base geographies, increasing pressure on the Group's ability to maintain its margins. There is significant competition within the resources industry in Australia, the United States and Asia. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on the Group. This pressure could adversely affect the Group's market share and financial performance and position.

**(z) Title (including native title) risks**

**(i) Tenements and related approvals**

Exploring or mining for coal is unlawful without a tenement granted by the relevant state government. The grant and renewal of tenements is subject to a regulatory regime and each tenement is subject to certain conditions. There is no certainty that an application for grant or renewal of a tenement will be granted at all or on satisfactory terms or within expected timeframes. In particular, there are a number of applications for the renewal of existing Coal & Allied tenements for both HVO and MTW, which have not yet been granted by the NSW Government. Further, the conditions attached to tenements may change. The permitting rules are complex and may change over time, making the title holder's responsibility to comply with the applicable requirements more onerous, more costly or even impossible, thereby precluding or impairing continuing or future mining operations. There is a risk that the Group may lose title to any of its granted tenements if it is unable to comply with conditions or if the land that is subject to the title is required for public

purposes. There is also a risk that the grant or renewal of a tenement may be refused.

Obtaining mining tenements often involves first obtaining consents from landholders and other third parties, some of which may in certain circumstances have a right of veto, as well as approvals (such as environmental approvals). There is a risk that the requisite consents and approvals may not be able to be obtained on time or on acceptable commercial terms, or may not be able to be obtained at all, and consequently have an adverse financial effect on the Group.

**(ii) Native title**

Where the grant or renewal of a tenement is in respect of land in relation to which native title may exist, the Group will need to comply with the NTA in order for the tenement to be validly granted.

Compliance with the NTA (and the relevant native title process to be followed for the grant of the tenement e.g. the right to negotiate process) may be prolonged or delayed, and substantial compensation may be payable as part of any agreement reached, including for the extinguishment or impairment of the relevant native title rights and interests.

Although there is no determination of native title which overlaps with the area of the Coal & Allied tenements, there is a registered native title claim over the area. Should the claim be successful, it is unlikely to affect the validity of the existing mining tenements, however, the conditions of some tenements may require the Group to enter into a compensation agreement with the native title holders to continue to exercise its rights under the mining tenements.

The existence or determination of native title may, therefore, affect the existing or future activities of the Group and impact on its ability to develop projects which may in turn impact its operational and financial performance

**(iii) Aboriginal land claims (ALC)**

Under the *Aboriginal Land Rights Act 1983* (NSW), Aboriginal Land Councils can claim crown land where certain requirements are met.

Successful claims result in the transfer of land in freehold title to the claimant council.

Councils are afforded certain statutory rights which can include an effective veto over future planning approvals within the area that overlaps the freehold title.

The Coal & Allied tenements are located in areas that are subject to both granted and outstanding ALCs. Additional ALCs may be made and granted over the area of the Coal & Allied tenements in the future.

**(aa) Overlapping tenement and land ownership and access rights and risks**

Some of the Group's mines and associated tenements adjoin or are overlapped by petroleum tenements and adjoin other exploration interests held by third parties. Overlapping tenements could potentially prevent, delay or increase the cost of the future development of the Company's projects because the Group and the relevant petroleum exploration licence or other exploration licence holders could potentially seek to undertake their respective activities on the overlapping area or on the same resource seams, and in some cases the overlapping petroleum tenement holder's consent may be required.

There is no guarantee that agreement will be reached with the overlapping petroleum tenement holder or that agreement will not be delayed or will be reached on terms satisfactory to the Group. There is also a risk that if agreement cannot be reached with overlapping tenement holders the matter may be referred to the relevant minister or a court who may make a decision which adversely impacts upon or prevents the project proposed by the Group.

In addition, the Group may not hold all required land, land access rights or mining tenements required in order to undertake current or proposed mining and exploration activities and it is possible that technical non-compliance with respect to land access and

compensation requirements under the Mining Act 1992 (NSW) or the Mineral Resources Act 1989 (Qld) subsist (as well as outstanding compensation liabilities to relevant landholders). In particular, there may be gaps in land ownership, access rights and compensation arrangements between HVO and Glencore in respect of certain sections of the HVO tenement where their operations overlap or are closely situated.

This may affect the existing or future activities of the Group and impact on its ability to develop projects which may in turn impact its operational and financial performance.

**(bb) Obligations to acquire prescribed properties**

Certain regulatory consents in NSW contain conditions which grant the owners of prescribed properties affected by the operation of a mine a right to have their properties acquired by the mine operator of MTW.

The exercise of this right by affected owners of prescribed properties (both individually and in aggregate) may impact the Group's operational and financial performance.

**(cc) Enforcement and counterparty insolvency risks**

The Group has entered into contracts which are important to the future of its businesses including (but not limited to) for the provision of coal handling services, long-term sales contracts, debt facilities, long-term leases, contract mining and the provision of certain guarantees, indemnities and sureties.

Any failure by counterparties to perform those contracts may have a material adverse effect on the Group and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action.

In addition, any insolvency of a counterparty to any of these contracts may have a material adverse effect on the Group and there can be no assurance that it would be successful in enforcing any of its contractual rights through legal action or recovering all or any monies owed by that counterparty (including under any claim for damages).

**(dd) Coal royalties**

Royalties are payable to the NSW and QLD state governments on coal produced in NSW and QLD. In both states, the royalties are payable on an ad valorem basis as they are calculated as a percentage of the value for which the coal is sold. The relevant State Governments may increase these royalties or their method of calculation. Any impost of new royalty related state tax or increase in royalty rates may have an adverse effect on the Group's financial position and/or financial performance.

**(ee) Health, safety and hazardous materials risks**

The Group's operations may substantially impact the environment or cause exposure to hazardous materials. The Group may use hazardous materials and may generate hazardous waste, and may be subject to common law claims, damages due to natural disasters, and other damages, as well as the investigation and clean-up of soil, surface water, groundwater and other media. Such claims may arise, for example, out of current or former activities at sites that it owns or operates.

There is also a risk that actions could be brought against the Group, alleging adverse effects of such substances on personal health. If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of the Group.

There is a risk that past, present or future operations have not met, or will not meet, health and safety requirements and/or that the approvals or modifications the Group is currently seeking, or may need to seek in the future, will not be granted at all or will be granted on terms that are unduly onerous. If the Group is unsuccessful in these efforts or otherwise breaches these health and safety requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works at one or more of its sites.

**(ff) Environmental risks**



Due to the nature of coal mining processes, and the associated by-products, residues and tailings generated from these processes, all Group operations are subject to stringent environmental laws and regulations.

There is a risk that past, present or future operations (including the past operations of Coal & Allied) have not met or will not meet environmental or related regulatory requirements and/or that the approvals or modifications the Group is currently seeking, or may need to seek in the future, will not be granted at all or will be granted on terms that are unduly onerous. If the Group is unsuccessful in these efforts or otherwise breaches these environmental requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works at one or more of its sites. In addition, the Group will inherit responsibility for managing ongoing environmental incidents arising in relation to Coal & Allied tenements acquired under the Acquisition.

Environmental legislation may change in a manner that requires compliance with additional standards, and a heightened degree of responsibility for companies and their directors and employees. There may also be unforeseen environmental liabilities resulting from coal-related activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential abandonment costs and obligations for which the Group may become liable as a result of its activities may be impossible to assess under the current legal framework.

**(gg) Climate change/carbon regulation risks**

The regulatory response to the risk of climate change, including unilateral and collective action by Australia and other countries, may affect demand for coal, coal prices and the competitiveness of the Company's products in the world energy market.

In November 2014, an agreement was announced between the United States and China to cut greenhouse gas emissions by more than 25% below 2005 levels by 2025. This agreement was followed by the 2015 United Nations Climate Change Conference, and the signing of the Paris Agreement within the United Nations Framework Convention on Climate Change. The Paris Agreement was signed by representatives from 195 countries, and aims to hold back the increase in global temperatures, increase the ability of countries to adapt to the adverse impacts of climate change and provide channels to finance projects that lead to greenhouse gas reductions.

In recent years, China has also taken steps to address severe air pollution in many Chinese cities by adopting a range of policies to lower carbon emissions and reduce coal usage.

Extensive government regulations relating to climate change impose costs on the mining operations of the Company, and future regulations could increase those costs, limit the Company's ability to produce and sell coal, or reduce demand for the Company's coal products.

**(hh) Technological change**

Thermal coal as a source of energy competes with other forms of electricity generation (such as hydro, solar and wind). In recent years, the global shift from conventional fuels to renewable sources of energy has created greater competition for thermal coal in the market.

As renewable technologies become more efficient and cost effective, they may gain an economic advantage over coal-fired and other fossil-fuel based electricity generation. These economic factors, combined with increasing costs to comply with emission limits for other air pollutants, may result in the continued retirement of existing coal-powered generation capacity, and the cancellation of planned additional coal-fired power capacity, which may reduce demand for thermal coal in the market.

**(ii) Key personnel**

A number of key personnel are important to attaining the business goals of the Group. One or more of these key employees could leave their employment or cease to actively participate in the management of the Group and this may adversely affect the ability of the Group to conduct its business and, accordingly, affect its financial performance and its

Share price. There may be a limited number of persons with the requisite experience and skills to serve in the Group's senior management positions if existing management leave the Group. If the Group cannot attract, train and retain qualified managers, and other personnel, the Group may be unable to successfully manage its growth or otherwise compete effectively in the Australian coal industry.

**(jj) Environmental activism**

Environmental lobby groups in both QLD and NSW have recently made submissions opposing both operation and expansion of coal mines in an attempt to prevent new mine developments or expansion of existing mines on the basis of environmental concerns. Increased community concern and adverse actions taken by community and environmental groups may delay or prevent the Group from progressing new mine developments or development or expansion of existing mines, or may mean that those mines are subject to conditions that adversely affect their profitability and consequently the financial performance of the Group.

**(kk) Changes in government policy, regulation or legislation**

The resources industry is subject to extensive legislation, regulations and supervision by a number of federal and state regulatory organisations.

Any future legislation and regulatory change may affect the resources industry and may adversely affect the Group's financial performance and position, such as future laws that may limit the emission of greenhouse gases or the use of coal in power generation.

**(i) Environment and planning**

In recent years, state government policies of NSW and QLD have been introduced in the interests of protecting agricultural and urban land from the effects of mining. These include the QLD Government's Central Queensland Plan and Regional Planning Interests Act and the NSW Government's Strategic Regional Land Use Policy, Aquifer Interference Policy, and 2013 amendments to the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007. Each of these policies is relevant to the areas in which the Group has mining operations. Accordingly, there is no assurance that the future development and exploration activities of the Group will result in profitable or commercially viable mining operations in these areas.

In 2013, the NSW State Government introduced the fit and proper person consideration in making decisions about mining rights including the grant, transfer, renewal, cancellation and suspension of such rights. This allows the Government to consider a miner's conduct (in particular its compliance with environmental and mining legislation), as well as a miner's financial capabilities and technical expertise. In recent years, the NSW State Government has also significantly increased the maximum penalties for breaches of mining and environmental legislation, and the resources of regulators to investigate possible breaches and prosecute mining companies. These changes have resulted in the updating of compliance programs, and increased the risk of prosecution for breaches of relevant legislation.

In 2013, the QLD State Government reviewed the method of calculating the financial assurance required to be provided by mining companies in respect of their rehabilitation liability and this review led to a significant increase in financial assurance amounts that are required to be covered by bank guarantees. The Audit Office of NSW is carrying out a review of rehabilitation liabilities in respect of mines and there is a risk this such review may lead to a material increase in the amount of security required in respect of rehabilitation liabilities.

**(ii) Workplace, health and safety**

In Australia, safety is regulated by the states and territories. In the past five to seven years, Australia has been undertaking a process of harmonising its safety legislation so that it is (generally) consistent in each state and territory.

In terms of general safety legislation, with the exception of WA and Victoria, all States and Territories introduced virtually identical general safety legislation between 2011 to 2013. Victoria and WA have not adopted the harmonised safety legislation. WA has indicated that it intends to adopt the harmonised legislation. There is also specific mining legislation in many States. A process of harmonising the mining legislation which applies around Australia is also being undertaken, but at this stage only NSW has changed its mining legislation (this occurred in 2015). The new mining regime in NSW is more prescriptive than the previous regime. Since mid-2016, there has been a focus on re-emergence of black lung disease (Coal Workers' Pneumoconiosis) in the mining sectors in QLD and NSW. In September 2016, the QLD Government established a parliamentary committee to inquire and report on the re-emergence of the disease. To date the NSW Government has not established a parliamentary committee but the NSW Resources Regulator is monitoring the issue.

**(iii) China**

Further, China recently implemented a series of policies such as the 6% tax on the importation of thermal coal and a number of environmentally driven quality restrictions. The impact of the import tax will depend on the pricing response by large domestic coal producers in China, and may vary if there are further regulatory developments. However, it may make foreign suppliers less competitive versus domestic producers.

On 17 June 2015, Australia and China signed the China-Australia Free Trade Agreement. This free trade agreement includes the removal of tariffs on all resources and energy products, including the removal of the current 6% tariff on non-coking coal within two years. While the impact of the PRC tax on the Company is unclear and yet to be fully evaluated, the Company does not expect any financial impact to be significant.

**(II) Litigation**

Like all companies in the resources sector, the Group is exposed to the risks of litigation (either as the complainant or as the defendant), which may have a material adverse effect on the financial position and financial performance of the Group. The Group could become exposed to claims or litigation by persons alleging they are owed fees or other contractual entitlements, employees, regulators, competitors or other third parties. As at the date of this booklet, there are a number of existing claims by such parties.

**(mm) Exploration and development risks**

There are several risks relating to coal mining exploration and development which are common to the industry and which, if realised, have the capacity to affect operations, production, cash flow, financial position and financial performance of the Group.

Development and exploration activities may be affected by factors beyond the control of the Group, including geological conditions, seismic activity, mineralisation, consistency and predictability of coal grades, changes to law, changes to the regulatory framework applying to mining, overlapping resources tenure, and the rights of indigenous people on whose land exploration activities are undertaken.

Any discovery of a coal deposit does not guarantee that the mining of that deposit would be commercially viable, with the size of the deposit, development and operating costs, and ownership, coal prices and recovery rates all being key factors in determining commercial viability.

Although the Group has established coal production, development and exploration businesses, its future value is materially dependent on its ability to bring development and expansion projects into production on a timely and economic basis.

Issues that arise during development, construction and mine start-up may result in increased costs, delayed commencement of coal production, delayed receipt of coal revenue or coal production not commencing at all. These problems may include delays in obtaining approvals (including land use approvals) or in the construction of mine infrastructure. There are many milestones which need to be met in a timely fashion for

production to commence on any projects currently in the pre-development or development stages.

The Group may also be exposed to risks including risks of default associated with managing contractual relationships with participants in any of the development or exploration joint ventures or other contractual relationships to which it is, or may become, a party.

**(nn) Insurance risks**

The Group has insurance coverage for certain operating risks. However, it may become subject to liability (including in relation to pollution, occupational illnesses or other hazards), or suffer loss resulting from business interruption, for which it is not insured (or has not sufficiently insured) or cannot insure, including liabilities in respect of past activities.

Should a major uninsured loss be suffered, future financial performance could be materially adversely affected. In addition, insurance may not continue to be available at economically acceptable premiums. As a result, the insurance coverage may not cover the full scope and extent of claims against the Group or losses it may incur, including, but not limited to, claims for environmental or industrial accidents, occupational illnesses, pollution and product liability, war, terrorism and business interruption. To the extent a successful claim against the Group proceeds, it may have a material adverse effect on its financial position.

**(oo) Transport and infrastructure**

Coal produced from the Group's mining operations is transported to customers by a combination of road, rail and sea.

A number of factors could disrupt or restrict access to essential coal transportation and handling services, including (but not limited to):

- weather related problems;
- key equipment and infrastructure failures;
- rail or port capacity constraints;
- congestion and inter-system losses;
- industrial action;
- failure to obtain consents from third parties for access to rail or land;
- failure or delay in the construction of new rail or port capacity;
- failure to meet contractual requirements;
- access being removed or not granted by regulatory authorities;
- breach of regulatory framework;
- mismatch of below rail capacity, above rail capacity and port capacity; and
- possible sale of infrastructure,

all or any of which could impair the Group's ability to supply coal to customers and/or increase costs, and consequently may have a material adverse effect on the Group's financial position.

Significant increases in transport costs (such as emissions control requirements and fluctuations in the price of diesel fuel and demurrage) could make the Group's coal less competitive when compared to other fuels or coal produced from other regions.

#### **4.4 Risks associated with the Entitlements, New Shares and Additional New Shares**

**(a) Market price of the New Shares and Additional New Shares**

The market price of the Company's Shares may fluctuate over time as a result of a number of factors including the financial performance and prospects of the Group, prevailing market conditions, general investor sentiment in those markets, inflation, interest rates, and the liquidity and the volume of the Shares being bought or sold at any point in time. It should be noted that there is no guarantee that the New Shares and Additional New Shares will trade

at or above the Offer Price. It should also be noted that the historic Share price performance of the Shares does not necessarily provide any guidance as to its future Share price performance.

**(b) Liquidity and realisation**

There can be no guarantee that there will be an active market in Shares or Entitlements traded on ASX or that the price of New Shares or Additional New Shares (if any) will increase. There may be relatively few or many potential buyers of the Shares or Entitlements on ASX at any time. This may increase the volatility of the market price of the Shares and Entitlements and may affect the price at which Shareholders (or holders of Entitlements as applicable) are able to sell their Shares or Entitlements.

**(c) Underwriting risk**

The Company has entered into binding placement commitment letters with each Placement Investor, a binding equity subscription commitment letter with Yanzhou and underwriting commitment letters with each Underwriter, under which:

- the Placement Investors have committed to subscribe for New Shares for the Placement Commitments;
- Yanzhou has committed to take up US\$1 billion of its Entitlements under the Entitlement Offer; and
- the Underwriters have agreed to underwrite the balance of the Entitlement Offer to the value of US\$1.3 billion, severally in their Respective Proportions in accordance with the Underwriter Allocation Policy, and subject to the terms and conditions of the underwriting commitment letters (details of which are included in Section 7.4 of this booklet).

The Underwriters (other than Cinda), Yanzhou and the Placement Investors, are not entitled to terminate their respective commitments for any reason assuming all applicable conditions (including regulatory conditions) are met. For the avoidance of doubt, the termination of the Offer Management Agreement by the Joint Lead Managers does not affect the obligation of each Underwriter to underwrite its Respective Proportion of the Entitlement Offer and each Placement Investor to subscribe to New Shares up to their respective Placement Commitment. However, there is a risk that if Cinda were to terminate its underwriting commitment or an Underwriter or Placement Investor was to fail to honour their commitments or, where applicable, the conditions to their commitments (including regulatory conditions) are not satisfied or waived, the Offer may not raise the full amount proposed to be raised.

If the Offer is unsuccessful or otherwise fails to raise the full amount proposed to be raised, the Company will likely draw upon additional Shareholder Debt, including the Yankuang Back-stop Facility, and/or cash to complete the Acquisition. Yankuang has undertaken to provide the Yankuang Back-stop Facility to fund any shortfall in the Offer below US\$2.45 billion up to a maximum amount of US\$1 billion. If the Offer is unsuccessful or otherwise fails to raise sufficient funds to complete the Acquisition even with the amount under the Yankuang Back-stop Facility, Yankuang has also agreed to negotiate in good faith an alternative facility for the Company (in substitution for the Yankuang Back-stop facility) that will not exceed US\$2.5 billion as well as explore other viable solutions should this circumstance arise.

Additional Shareholder Debt and/or cash to fund any shortfall in the Offer will increase the pro forma leverage of the Company. Furthermore, Yanzhou will not be able to convert all of its SCNs should the Offer fail to raise at least US\$2.1 billion.

Offer proceeds (US\$ million)	Net debt <sup>132</sup> / EBITDA	Face value of Yanzhou SCNs not converted to	Annualised SCN coupon payments on Yanzhou	Annualised pre-tax net interest expense on	Annualised impact on Yancoal net
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<sup>132</sup> Net debt including SCNs and pro forma for the completion of the Acquisition and Glencore Transaction and Yanzhou converting its SCNs.

	(last 12 months) <sup>133</sup>	Shares <sup>134</sup> (US\$ million)	SCNs not converted <sup>135</sup> (A\$ million)	additional Shareholder Debt (including the Yankuang Back-stop Facility) drawn <sup>136</sup> (A\$ million)	cash flows <sup>137</sup> (A\$ million)
2,500	3.1x	0	0	0	0
2,400	3.2x	0	0	10	10
2,300	3.3x	0	0	21	21
2,200	3.4x	0	0	31	31
2,100	3.5x	37	3	425	45
2,000	3.6x	392	37	53	89
1,900	3.7x	746	70	64	134
1,800	3.8x	1,101	103	76	179
1,700	3.9x	1,455	136	88	224

**(d) Risk of renouncing Entitlements under the Entitlement Offer**

If a Shareholder is an Eligible Shareholder, and they do not take up or sell their Entitlements under the Entitlement Offer, then their Entitlements will be treated as renounced and will be offered for sale on their behalf in the Entitlement Offer Bookbuild and any proceeds of sale of their Entitlements will be paid to them. However, there is no guarantee that any value will be received for their renounced Entitlements through the Entitlement Offer Bookbuild process.

The ability to sell New Shares under the Entitlement Offer Bookbuild and the ability to obtain a premium will be dependent upon various factors, including market conditions. Further, the Entitlement Offer Bookbuild price may not be the highest price available, but will be determined having regard to a number of factors, including having binding and bona fide offers which, in the reasonable opinion of the Joint Lead Managers, will, if accepted, result in acceptable allocations to clear the entire book.

To the maximum extent permitted by law, the Company, the Joint Lead Managers and their respective related bodies corporate, affiliates or the directors, officers, employees or advisers of any of them, will not be liable, including for negligence, for any failure to procure applications under the Entitlement Offer Bookbuild at a price in excess of the Offer Price.

At the date of this booklet, the Company has 994,276,659 Shares on issue. The Entitlement Offer, if fully subscribed, could significantly dilute the existing ordinary Shareholders in the Company (to the extent that they do not take up their full Entitlement) through the issuance of approximately 23,464,929,152 New Shares. In addition, the issue of 1,500,000,000 New

<sup>133</sup> Based on EBITDA over the last 12 months to 30 June 2017 from unaudited management accounts.

<sup>134</sup> Based on the maximum number of SCNs that can be converted by Yanzhou in conjunction with the Offer having regard to the ATP Order and assuming Lucion Group, an Underwriter of the Entitlement Offer, does not reduce its Respective Portion and is regarded as an associate of Yanzhou.

<sup>135</sup> Assumes a SCN coupon rate of 7.00% per annum and a USD/AUD FX rate of 0.75.

<sup>136</sup> Assumes that any shortfall in Offer proceeds equal to or below US\$50 million is funded by existing Shareholder Debt at an interest rate of 7.00% per annum, any shortfall in Offer proceeds above US\$50 million and up to US\$550 million is funded by the Yankuang Back-stop Facility at an interest rate of 8.00% per annum (for the first 12 months post drawdown), any shortfall in Offer proceeds above US\$550 million and up to US\$800 million is funded by the Yankuang Back-stop Facility at an interest rate of 9.00% per annum (for the first 12 months post drawdown) and a USD/AUD foreign exchange rate of 0.75. Refer to Section 2.11 of this booklet for further information on Shareholder Debt.

<sup>137</sup> Assumes that there are no cash timing differences or cash tax impacts of SCN coupons and interest on additional Shareholder Debt drawn.

Shares under the Placement and the issue of up to 18,000,031,000 Shares upon conversion by Yanzhou of some or all of its SCNs will also dilute the existing ordinary Shareholders in the Company.

It is possible that the Offer could adversely affect the value of Shares. This may cause Shares to trade on ASX at a value less than the Offer Price following the issuance of New Shares.

**(e) Risk of selling or transferring Entitlements under the Entitlement Offer**

If a Shareholder is an Eligible Shareholder and does not wish to take up their Entitlements, they can sell them on ASX or transfer them to another person or entity other than on ASX during the Entitlement Trading Period.

Prices obtainable for Entitlements may rise and fall over the Entitlement Trading Period and liquidity may vary. If an Eligible Shareholder sells or transfers their Entitlements at one stage in the Entitlement Trading Period they may receive a higher or lower price than a shareholder who sells or transfer their Entitlements at a different stage in the Entitlement Trading Period or through the Entitlement Offer Bookbuild.

There is no guarantee that there will be a viable market during, or on any particular day in, the Entitlement Trading Period, on which to sell Entitlements on ASX. Eligible Shareholders who wish to sell their Entitlements may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for Entitlements.

**(f) Ownership dilution for non-participating shareholders**

Those Shareholders who do not take up their Entitlements will have their ownership in the Company diluted (beyond the dilution from the Placement and SCN conversion). However, The Acquisition, MDP Tag-along Agreement and Glencore Transaction, along with the Offer, are transformative transactions that are expected to be accretive across key operating and financial metrics.<sup>138</sup>

#### **4.5 General risks**

General risk factors outside the control of the Company, which may have a significant impact on the future performance of the Group, include the following:

- economic conditions in Australia and internationally which may have a negative impact on capital markets;
- change in investor sentiment and perceptions in local and international stock markets;
- changes in interest rates, exchange rates and the rate of inflation;
- changes in domestic or international fiscal, monetary, regulatory, taxation and other government policies;
- changes in environmental conditions, such as lack of access to water;
- geo-political conditions such as acts or threats of terrorism, military conflicts or international hostilities;
- developments and general conditions in markets in which the Group operates; and
- economic and natural disasters.

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<sup>138</sup> Normalised for one-off events (i.e. transaction costs, stamp duty).

## 5. Directors, key management personnel and corporate governance

This section provides information about the Directors (and alternate Directors), the key management personnel of the Company, and the Company's corporate governance framework.

### 5.1 Board

The Directors (and alternate Directors) bring to the Board relevant expertise and skills, including industry and business knowledge, financial management and corporate governance experience.

The Directors and alternate Directors of the Company are:

Name and position	Experience, qualifications and expertise
Xiyong Li Chairman, Non-Executive Director	<p><b>Term:</b> Chairman and non-executive director since 12 September 2013.</p> <p><b>Qualifications:</b> Mr Li graduated from Shandong University of Science and Technology and Nankai University and is a researcher in engineering technique application with an EMBA degree.</p> <p><b>Committees:</b> Chairman of the Company's Nomination and Remuneration Committee.</p> <p><b>Experience and expertise:</b> Mr Li has considerable experience in business management and operations in the coal industry. Mr Li commenced his career in 1981 and was appointed as the head of Huafeng Coal Mine of Xinwen Mining Group Co., Ltd. (<b>Xinwen Group</b>) in May 2001. In June 2006, he was appointed as the Deputy General Manager of Xinwen Group. In June 2010, he was appointed as the Chairman and Secretary of the Party Committee of Xinwen Group. In March 2011, he was appointed as the Vice Chairman of Shandong Energy Group Co., Ltd. and the Chairman and the Secretary of the Party Committee of Xinwen Group. In July 2013, Mr Li joined Yankuang and was appointed the General Manager and Deputy Secretary of the Party Committee. In September 2013, he was appointed the Chairman of Yanzhou. He was also appointed the Chairman of the Company in September 2013. In February 2015, he was appointed as the Chairman and Secretary of the Party Committee of Yankuang.</p> <p><b>Other current key directorships and positions:</b></p> <ul style="list-style-type: none"><li>• Chairman of Yanzhou;</li><li>• Director, General Manager and the Deputy Secretary of the Party Committee of Yankuang;</li><li>• Chairman of Yancoal International (Holding) Co., Ltd; and</li><li>• Director of Yancoal International (Sydney) Pty Ltd.</li></ul>
Cunliang Lai Co-Vice Chairman, Non-Executive Director	<p><b>Term:</b> Co-Vice Chairman since 26 June 2012 and non-executive director since 20 January 2014.</p> <p><b>Qualifications:</b> Mr Lai graduated from Nankai University and the Coal Science Research Institute. He is a researcher in engineering technology application with a Doctorate in Engineering and an EMBA degree.</p> <p><b>Committees:</b> Member of Nomination and Remuneration Committee.</p> <p><b>Experience and expertise:</b> Mr Lai joined Yanzhou's predecessor in 1980. He was appointed as the head of Xinglong-Zhuang Coal Mine of Yanzhou in 2000. In 2005, he was appointed as the Deputy General Manager of Yanzhou. Before the merger with Gloucester Coal, Mr Lai was an Executive Director of the Company and was appointed the Co-Vice Chairman and Chair of</p>



the Executive Committee in 2012. Mr Lai successfully completed the acquisition of the Austar Coal Mine and the establishment of an appropriate corporate governance structure for the Company. Mr Lai has also successfully applied the Longwall Top Coal Caving technology in Australia and has gained considerable experience in Australian coal business management.

**Other current key directorships and positions:**

- Nil.

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Baocai Zhang  
Co-Vice Chairman,  
Executive Director

**Term:** Co-Vice Chairman since 20 December 2013 and executive director since 20 January 2014.

**Qualifications:** Mr Zhang graduated from Nankai University. He is a senior accountant with an EMBA degree.

**Committees:**

- Chairman of the Company's Executive Committee; and
- Chairman of the Company's Strategy and Development Committee.

**Experience and expertise:** Mr Zhang joined Yanzhou's predecessor in 1989 and was appointed as the Head of the Planning and Finance department of Yanzhou in 2002. He was appointed as a Director and Company Secretary of Yanzhou in 2006 and Deputy General Manager in 2011. Mr Zhang was appointed as Non-executive Director of the Company on 26 June 2012, and subsequently appointed as Co-Vice Chairman of the Company on 20 December 2013. He became the Chair of the Executive Committee of the Company on 20 January 2014. In October 2015, Mr Zhang became a director and a standing member of the Party Committee of Yankuang. Mr Zhang planned and played a key role in the acquisition of Felix Resources and was involved in the merger with Gloucester Coal in Australia. He also led Yanzhou's acquisition of potash exploration permits in Canada in 2011. He has considerable experience in capital market management and business development in the coal industry, in particular in financial control, corporate governance and compliance for listed companies in Australia and overseas.

**Other current key directorships and positions:**

- Director of Yankuang;
- Director of Yanzhou Coal Yulin Neng Hua Co., Ltd;
- Director of Inner Mongolia Haosheng Coal Mining Limited;
- Director of Yancoal International (Holding) Co., Ltd; and
- Director of Yancoal SCN Limited.

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Xiangqian Wu  
Non-Executive  
Director

**Term:** Director since 28 April 2017.

**Qualifications:** Mr Wu is a Research Fellow in Applied Engineering Technology, a Doctor of Engineering, and a Director and General Manager of Yanzhou.

**Committees:** Member of the Company's Nomination and Remuneration Committee.

**Experience and expertise:** Mr Wu joined Yanzhou's predecessor in 1988. In 2003, he was appointed as the Deputy Head of Jining No.3 Coal Mine of Yanzhou. In 2004, he was appointed as the Deputy Head and Chief Engineer of Jining No.3 Coal Mine of Yanzhou. In 2006, he was appointed as the Head of

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Jining No.3 Coal Mine of Yanzhou. In March 2014, he was promoted as the Chairman and General Manager of Yanzhou Coal Ordos Neng Hua Co., Ltd. and Chairman of Inner Mongolia Haosheng Coal Mining Co., Ltd. In May 2014, he was appointed as a Director of Yanzhou. In January 2016, he was appointed as the General Manager of Yanzhou. Mr Wu graduated from Shandong University of Science and Technology and China University of Mining and Technology.

**Other current key directorships and positions:**

- Duanxin Investment Holding (Shenzhen) Co., Ltd – Chairman of the board; and
- Yanzhou Coal Mining Company Limited – Director, General Manager.

Fuqi Wang

Non-Executive Director

**Term:** Non-executive director since 23 April 2015.

**Qualifications:** Mr Wang graduated from Northeastern University and Nankai University. He is a research fellow in applied engineering technology with an EMBA degree and a Master of Engineering and serves as the Chief Engineer of Yanzhou.

**Committees:**

- Member of the Company's Health, Safety and Environment Committee; and
- Member of the Company's Strategy and Development Committee.

**Experience and expertise:** Mr. Wang joined Yanzhou's predecessor in 1985. In 2000, he was appointed as the Chief Engineer of Production and Technology Division of Yankuang. In 2002, he served as the Director of Production and Technique Department of Yanzhou. In 2003, he was appointed as the Deputy Chief Engineer and Director of Production and Technique Department of Yanzhou. In March 2004, he was appointed as the Chief Engineer of Yanzhou.

**Other directorships and positions:**

- Director of Yanmei Heze Neng Hua Co., Ltd.

Qingchun Zhao

Non-Executive Director

**Term:** Non-Executive director since 28 April 2017.

**Qualifications:** Mr Zhao is a senior accountant with an EMBA degree, and is a Director and the Chief Financial Officer of Yanzhou.

**Committees:**

- Member of the Company's Strategy and Development Committee; and
- Member of the Company's Audit and Risk Management Committee.

**Experience and expertise:** Mr Zhao joined Yanzhou's predecessor in 1989 and was appointed as the Chief Accountant of the Finance Department in 2002 and Director of the Planning and Finance Department of Yanzhou in 2006. In March 2011, he was appointed as the Vice Chief Financial Officer and the Director of the Finance Department of Yanzhou. In March 2014, Mr Zhao was appointed Assistant General Manager and the Director of the Finance Management Department of Yanzhou. In January 2016, he was appointed as the Chief Financial Officer of Yanzhou and

appointed as a Director of Yanzhou in June 2016. Mr Zhao graduated from Nankai University.

**Other current key directorships and positions:**

- Yanzhou Coal Mining Company Limited – Director, Chief Financial Officer;
- Shandong Yancoal Shipping Co., Ltd;
- Inner Mongolia Haosheng Coal mining Ltd;
- Shendi Fenlei Coal Preparation Engineering Technology (Tianjin) Co., Ltd;
- Shandong Duanxin Supply chain Management Co., Ltd;
- Shandong Zhongyin International Trade Co., Ltd;
- Zhongyin Financial Leasing Co., Ltd;
- Qilu Bank Co., Ltd;
- Yankuang Group Finance Co., Ltd;
- Shanghai CIFCO Futures;
- Shanxi Future Energy Chemical Co., Ltd;
- Huadian Zouxian Power Generation Company Limited;
- Duanxin Investment Holding (Shenzhen) Co., Ltd; and
- Qingdao Duanxin Asset Management Co., Ltd.

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William Randall

Non-Executive  
Director

**Term:** Non-executive director since 26 June 2012.

**Qualifications:** Mr Randall holds a Bachelor degree in Business from the Australian Catholic University, majoring in international marketing and finance.

**Committees:** Member of the Company's Nomination and Remuneration Committee.

**Experience and expertise:** Mr Randall started his career with Noble in Australia in 1997, transferring to Asia in 1999 where he established Noble's coal operations, mining and supply chain management businesses. He served as a Director of Noble Energy Inc. in 2001, before being appointed Global Head of Coal and Coke in 2006 and became a member of the Noble internal management board in 2008. Mr Randall subsequently assumed the title of Head of Hard Commodities in 2012. He became an Executive Director of Noble in February 2012, prior to which he was Head of Energy Coal Carbon Complex. In 2016, Mr Randall became co-CEO of Noble. Mr Randall was appointed a director of the Company after the merger of the Company and Gloucester Coal in June 2012. Mr Randall also became the Chairman of Jamalco LLC in 2016.

**Other current key directorships and positions:**

- Director of Noble; and
- Director of various subsidiaries of Noble.

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Gregory Fletcher

Non-Executive  
Director

**Term:** Non-executive director since 26 June 2012.

**Qualifications:** Mr Fletcher holds a Bachelor of Commerce and he is a Chartered Accountant.

**Committees:**

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- Chairman of the Company's Audit and Risk Management Committee; and
- Chairman of the Company's Independent Board Committee.

**Experience and expertise:** Mr Fletcher was a Director of Gloucester Coal from June 2009. He was appointed a Director of Yancoal after the merger of Yancoal and Gloucester Coal in June 2012. Previously, Mr Fletcher was a senior partner with a 'Big 4' accounting firm where he specialised in external and internal audits and risk management. He provided professional services to some of Australia's largest listed corporations. Since 2009, Mr Fletcher has taken on Board and Audit Committee roles.

**Other current key directorships and positions:**

- Chairman of SMEG Australia Pty Ltd;
- Director of Yancoal SCN Limited;
- Director of Saunders International Limited;
- Director of TAFE NSW and Member of the Audit and Risk Committee;
- Member of Audit and Risk Committee, Railcorp;
- Member of Audit and Risk Committee, State Transit Authority of NSW;
- Member of NSW Auditor General's Audit and Risk Committee; and
- Member of Audit, Risk and Compliance Committee, Sydney Olympic Park Authority.

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Dr Geoffrey Raby  
Non-Executive  
Director

**Term:** Non-executive director since 26 June 2012.

**Qualifications:** Dr Raby holds a Bachelor of Economics degree, a Master of Economics and a Doctor of Philosophy in Economics.

**Committees:**

- Member of the Company's Audit and Risk Management Committee; and
- Member of the Company's Health, Safety and Environment Committee.

**Experience and expertise:** Dr Raby was appointed a Director of Yancoal in 2012. He was Australia's Ambassador to the People's Republic of China from 2007 to 2011. Prior to that, he was a Deputy Secretary in the Department of Foreign Affairs and Trade. Dr Raby has extensive experience in international affairs and trade, having been Australia's Ambassador to the World Trade Organisation (1998 to 2001), Australia's APEC Ambassador (2003 to 2005), Head of DFAT's Office of Trade Negotiations and Head of the Trade Policy Issues Division at the OECD, Paris. Between 1986 and 1991 he was Head of the Economic Section at the Australian Embassy, Beijing. He has been the Chair of DFAT's Audit Committee and served as an ex officio member of the Boards of Austrade and Export Finance and Insurance Corporation.

**Other current key directorships and positions:**

- Director of Oceana Gold Corporation Limited; and
  - Director of iSentia Group Ltd.
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Vincent O'Rourke  
AM.

Non-Executive  
Director

**Term:** Non-executive director since 22 December 2009.

**Qualifications:** Mr O'Rourke holds a Bachelor of Economics from the University of New England. He is an Honorary Doctor of the Queensland University of Technology and Griffith University.

**Committees:** Chairman of the Company's Health, Safety and Environment Committee.

**Experience and expertise:** Mr O'Rourke brings over 40 years of corporate and railway industry experience spanning operations, finance and business management to the Board. In 1990, Mr O'Rourke was appointed Queensland Commissioner for Railways and was the Chief Executive Officer of Queensland Rail (QR) from 1991 to 2000. As Chief Executive Officer of QR, Mr O'Rourke oversaw a 10-year program of reform and modernisation including corporatisation in 1995. He was awarded a Member of the Order of Australia in 2000 and a Centenary Medal in 2003 for services to the rail transport industry and QR.

**Other current key directorships and positions:**

- Non-executive director of Mater Health Services Brisbane Limited;
- Chairman of Holy Cross Laundry Pty Ltd;
- Director of White Energy Company Limited; and
- Director of Yancoal SCN Limited.

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Huaqiao Zhang

Non-Executive  
Director

**Term:** Non-executive director since 15 April 2014.

**Qualifications:** Mr Zhang obtained a Master Economics from the Financial Research Institute of the People's Bank of China in 1986 and a Master of Economics of Development from the Australian National University in 1991.

**Committees:** Member of the Company's Strategy and Development Committee.

**Experience and expertise:** Mr Zhang is a Hong Kong based businessman and has over 23 years of experience in the banking and finance industry, with extensive experience in the capital markets of Hong Kong and China.

Mr Zhang commenced his career in 1986, working as an economist at the Planning Department, People's Bank of China until 1989. In the first half of 1991, he was a public servant (APS 4) at the Australian Commonwealth Government's Department of Employment, Education and Training. From 1991 to 1994, Mr Zhang was a Lecturer of Banking and Finance at the University of Canberra.

Previously, Mr Zhang worked at UBS for 11 years, with the majority of his time serving as Head of China Research and Deputy Head of China Investment Banking. In 2006 to 2008, he was an Executive Director and Chief Operating Officer of Shenzhen Investment Ltd (604 HK).

**Other current key directorships and positions:**

- Chairman of China Smartpay Group Holdings Ltd (8325 HK);
  - Independent non-executive director of Fosun International Ltd (656 HK);
  - Independent non-executive director of Logan Property Holdings Co., Ltd (3380 HK);
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- Independent non-executive director of Luye Pharma Group Ltd (2186 HK);
- Independent non-executive director of Wanda Hotel Development Co., Ltd (0169 HK);
- Independent non-executive director of China Huirong Financial Holdings Ltd (1290 HK);
- Independent non-executive director of Zhong An Real Estate Ltd (672 HK);
- Independent non-executive director of Sinopec Oil Services Corp (1033 HK);
- Non-executive director of Boer Power Holdings Ltd (1685 HK); and
- Independent non-executive director of China Rapid Finance (NYSE: XRF).

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### Senior management personnel

Director/Position	Experience, qualifications and expertise
Baocai Zhang Chair of the Executive Committee	<p><b>Term:</b> Chair of the Executive Committee of the Company since 20 January 2014.</p> <p><b>Qualifications:</b> Mr Zhang graduated from Nankai University. He is a senior accountant with an EMBA degree.</p> <p><b>Experience and expertise:</b> Mr Zhang joined Yanzhou's predecessor in 1989 and was appointed as the Head of the Planning and Finance department of Yanzhou in 2002. He was appointed as a Director and Company Secretary of Yanzhou in 2006 and Deputy General Manager in 2011. Mr Zhang was appointed as Non-executive Director of the Company on 26 June 2012, and subsequently appointed a Co-Vice Chairman of the Company on 20 December 2013. He became the Chair of the Executive Committee of the Company on 20 January 2014. In October 2015, he became a director and a standing member of the Party Committee of Yankuang. Mr Zhang planned and played a key role in the acquisition of Felix Resources and was involved in the merger with Gloucester Coal in Australia. He also led Yanzhou's acquisition of potash exploration permits in Canada in 2011. He has considerable experience in capital market management and business development in the coal industry, in particular in financial control, corporate governance and compliance for listed companies in Australia and overseas.</p>
Reinhold Schmidt Chief Executive Officer	<p><b>Term:</b> Chief Executive Officer of the Company since August 2013.</p> <p><b>Qualifications:</b> Mr Schmidt is a mining engineer with a Master of Engineering (Mineral Economics).</p> <p><b>Experience and expertise:</b> Mr Schmidt has over 20 years' experience in the mining industry and was previously the Chief Operating Officer of Xstrata Coal Queensland. Prior to this role, Reinhold was Executive General Manager for the Wandoan project and prior to this, President of the Colombian coal assets of Glencore.</p>
Laura Ling Zhang Company Secretary	<p><b>Term:</b> Company Secretary since 6 September 2005 and Executive General Manager, Legal and Compliance at the Company since June 2012.</p>

**Qualifications:** Ms Zhang has a Bachelor of Arts degree, a Master of Arts degree, and has completed a Chartered Secretaries Australia (now called the Governance Institute of Australia) Graduate Diploma of Applied Corporate Governance, where she is now a Fellow. She is studying the EMBA course at Australia Graduate School of Management.

**Experience and expertise:** Ms Zhang was appointed on 6 September 2005 as Company Secretary and subsequently as Executive General Manager - Corporate Services for the Company in June 2012. Ms Zhang oversees the Company's corporate governance, group legal issues, corporate compliance, investor relations activities and shareholder communications.

Ms Zhang arrived in Australia in 2004 as one of the founding executives for the Company and has played a key role in each of the Company's acquisitions. She brings valuable experience and contribution to the Company through her understanding and experience of both Australian and Chinese corporate governance principles and business context and practices, engagement with the Board and senior management team, as well as cross-cultural communication and international enterprise management.

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Dr Lei Zhang	<b>Term:</b> Chief Financial Officer since January 2014.
Chief Financial Officer	<b>Qualifications:</b> Dr Zhang received his PHD of Economics from China Academy of Social Science Institute and his MBA from Peking University. Dr Zhang is a qualified accountant, China Inter-bank Market Dealer and China Bond Market Trader. <b>Experience and expertise:</b> Dr Zhang has been the Chief Financial Officer of Yancoal Australia Ltd since January 2014. Prior to joining the Company, Dr Zhang worked as CFO of Siemens North East Asia Real Estate, CFO and Managing Director at Chinalco Mining Corporation International (HK 3668) and also worked in ING Bank, Shell, and SK (Korea) in the United States, Germany, Peru and Australia. Dr Zhang has broad experience in the manufacturing, real estate, energy and mining sectors and has been in the leadership teams of Hong Kong and Australian listed companies for almost 10 years, including CFO positions at listed companies on the HKEX and ASX, managing director at Corporate Funds, as well as M&A and IPO project leads.

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## 5.2 Constitution

This Section 5.2 briefly summarises key provisions of the Company's Constitution. It is not intended to be an exhaustive summary of the Constitution. If you wish inspect the Constitution you may obtain a copy at [www.yancoal.com.au](http://www.yancoal.com.au).

### (a) Dividend policy

The Constitution requires the Directors, subject in each case to applicable laws, the ongoing cash needs of the business, and Shareholder approval, to pay dividends of no less than 40% of the Company's net profit after tax (pre-abnormal items) each financial year, unless the Directors decide to pay dividends of no less than 25% in order to prudently manage the Company's financial position.

Payment of dividends is also subject to the terms on which the SCNs have been granted. In addition, under the terms of the A\$28 million bank guarantee facility with BOC, the Company must not, except with the prior written consent of BOC, declare or pay any dividend or make any payment to any shareholder while any event of default or potential event of default (in each case as defined in the bank guarantee facility documentation) subsists or would subsist as a result of the relevant dividend. The events of default and potential events of default are customary for bank guarantee facilities of this nature.

**(b) Amendments to constitution**

The Constitution can only be amended by special resolution passed by at least three-quarters of the votes cast by Shareholders entitled to vote on the resolution. The Company must give at least 28 days' written notice of a general meeting of Yancoal.

**(c) Shareholder approval for certain actions**

Subject to all applicable laws, regulations and the ASX Listing Rules, Shareholder approval is required under the Constitution for a number of matters (either by way of a resolution of the Company or Shareholders holding a majority of Shares conferring the right to vote by writing delivered to the Company). The matters which require Shareholder approval include the following:

- (i) the appointment, removal and remuneration of Directors (except where there is a casual vacancy on the Board which causes non-compliance with the ASX Listing Rules, in which case the Board has the power to appoint a Director to fill that vacancy);
- (ii) reductions in the Company's issued capital;
- (iii) the annual financial statements of the Company;
- (iv) the payment of dividends;
- (v) loss recovery plans;
- (vi) the terms of any employee incentive schemes;
- (vii) the withdrawing of any forfeiture of shares taken by the Company over unpaid or partly paid Shares;
- (viii) the appointment and removal of the auditor and the auditor's remuneration for the annual audit;
- (ix) investments or disposals of assets with a value above specified thresholds;
- (x) issuing debentures and any borrowing or other means of financing by the Company above specified thresholds; and
- (xi) entering into mortgages over Company assets or providing guarantees above specified thresholds.

**(d) Representation at general meetings**

If Yanzhou holds more than 70% of the Shares in the Company, it may appoint a proxy with the authority to cast the votes attaching to any Shares that Yanzhou holds over 70%, consistently with the votes cast by the minority Shareholders of the Company in respect of any Shareholder resolution in which Yanzhou is entitled to vote.

**(e) Chairperson, deputy chairperson and CEC**

Shareholders holding a majority of the Shares in the Company are entitled to nominate a Director to the office of chairperson, and one or more Directors to the office of deputy chairperson.

Shareholders holding a majority of the Shares in the Company are also entitled to nominate a vice chair who will be appointed by the Board to be the CEC. The Executive Committee consists of the CEC, CEO, CFO and such other members as the Board determines from time to time in the Company. The functions of the Executive Committee are as set out in the Constitution, Board charter, Executive Committee charter.

## **5.3 Corporate governance**

This Section 5.3 explains how the Board oversees the management of the Company's business.

**(a) Board of Directors**

The Board of Directors comprises 10 non-executive Directors, including the Chairman, and one executive Director. Detailed biographies of the Directors are provided in Section 5.1.



The Board has adopted the guidelines set out in the Board charter to assist in considering the independence of Directors. Generally, the Board considers an independent Director to be a non-executive Director who is not a member of Management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent and unfettered exercise of their judgement. The Board will consider the materiality of any given relationship on a case-by-case basis, and regularly reviews the independence of each Director in light of information disclosed by each Director to the Board.

The Board considers that each of Vincent O'Rourke AM, Dr Geoffrey Raby, Gregory Fletcher, William Randall and Huaqiao Zhang is an independent Director.

**(b) Board Charter**

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out, among other things:

- the Board's structure and composition;
- the Board's authority and power to delegate;
- the Board's role and responsibilities; and
- how to manage conflicts of interest.

The Board's role is to, among other things:

- represent and serve the interests of Shareholders by overseeing and appraising the Company's strategies, policies and performance. This includes overseeing the financial and human resources the Company has in place to meet its objectives and reviewing management performance periodically;
- protect and optimise Company performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Company's constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- review and ensure compliance with the Company's values and governance framework (including establishing and observing high ethical standards);
- ensure Shareholders are kept informed of the Company's performance and major developments affecting its state of affairs, subject to the applicable rules relating to continuous disclosure; and
- monitor the Company's solvency.

The management function is conducted by, or under the supervision of, the CEC and the CEO as directed by the Board (and by officers to whom the management function is properly delegated by the CEC and CEO). Management must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively. The Board collectively, and each Director individually, has the right to seek independent professional advice, subject to the approval of the Chairman or the rest of the Board as a whole.

**(c) Board committees**

The Board may, from time to time, establish appropriate committees to assist in the discharge of its responsibilities. The Board has established the Audit and Risk Committee, the Health, Safety and Environment Committee, the Nomination and Remuneration Committee and the Strategy and Development Committee. Other committees may be established by the Board as and when required, including an IBC to consider relevant related party transactions. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements and the skills and experience of individual Directors.

## **5.4 Corporate governance policies**

The ASX Corporate Governance Council has developed and released the third edition of its ASX Corporate Governance Principles and Recommendations for ASX-listed entities in order to

promote investor confidence and to assist companies to meet stakeholder expectations. The ASX Corporate Governance Principles and Recommendations are guidelines, not prescriptions. The Board has adopted the following corporate governance policies, each having been prepared having regard to the ASX Corporate Governance Principles and Recommendations, and each policy is available on the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au).

**(a) Disclosure Policy**

The Company is listed on ASX, and accordingly is required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, the Company is required to disclose to ASX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the Shares. The Company is committed to observing its disclosure obligations under the ASX Listing Rules and the Corporations Act.

The policy adopted by the Company establishes procedures that are aimed at ensuring that Directors and Management are aware of, and in compliance with, their obligations in relation to the timely disclosure of material price-sensitive information. Under the Company's Disclosure Policy, the Disclosure Committee is responsible for managing the Company's compliance with its continuous disclosure obligations. Board approval and input will only be required in respect of matters that are clearly within the reserved powers of the Board (and responsibility for which has not been delegated to Management) or matters that are otherwise of fundamental significance to the Company. Continuous disclosure announcements are available on the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au).

**(b) Diversity Policy**

The Board recognises that people are its most important asset and is committed to the maintenance and promotion of workplace diversity. The Company has adopted a Diversity Policy, approved by the Board, to actively facilitate a more diverse and representative management and leadership structure.

Annually, the Board establishes measurable objectives with the assistance of the Nomination and Remuneration Committee with a view to progressing towards a balanced representation of women at a Board and senior management level. Performance against these measurable objectives is reviewed annually by the Company's Nomination and Remuneration Committee as part of its annual review of the effectiveness of the Diversity Policy.

**(c) Share Trading Policy and Insider Trading Policy**

The Company has adopted a Share Trading Policy and Insider Trading Policy which apply to the Company and its Directors, officers, employees (working the Company's Sydney office) and Management.

The policies are intended to explain the types of conduct in relation to dealings in Shares that are prohibited under the Corporations Act and establish procedures in relation to Directors, management or employees dealing in Shares.

Subject to certain exceptions, including severe financial hardship, the Share Trading Policy sets out certain 'blackout periods' during which trading in Shares by Directors, officers and certain senior executives is not permitted. These trading windows are currently defined as any of the following periods:

- the period from the close of trading on ASX on 31 December each year, or if that date is not a trading day, the last trading day before that day, until the day following the announcement to ASX of the preliminary final statement or full-year results;
- the period from the close of trading on 30 June each year, or if that date is not a trading day, the last trading day before that day, until the day following the announcement of the half-yearly results;

- the period from the close of trading on 31 March, or if that date is not a trading day, the last trading day before that day, until the day following the release of the relevant quarterly report;
- the period from the close of trading on 30 September, or if that date is not a trading day, the last trading day before that day, until the day following the release of the relevant quarterly report; and
- any other period that the Board specifies from time to time.

In all instances, buying or selling of Shares is not permitted at any time by any person who possesses price-sensitive information. A copy of the Share Trading Policy and Insider Trading Policy are available on the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au).

**(d) Shareholder Communications Policy**

In addition to meeting the Company's continuous disclosure obligations, the Board's aim is to ensure that Shareholders are kept informed of all major developments affecting the state of affairs of the Company. All ASX announcements made to the market, including annual and half-year financial results, are posted on the Company's website at [www.yancoal.com.au](http://www.yancoal.com.au) as soon as they have been released by ASX. The full text of all notices of meetings and explanatory material, the Company's annual report, key policies, and the charters of its Board committees, are posted on the Company's website. The website also contains a facility for the Shareholders to direct queries to the Company.

**(e) Code of Conduct**

The Board recognises the need to observe the highest standards of corporate conduct, ethics and governance. Accordingly, the Board has adopted a formal code of conduct, to be followed by all employees and officers. The key aspects of the code are to:

- act with honesty, integrity, fairness and responsibility and ethically and in the best interests of the Company;
- act in accordance with all applicable laws, regulations, policies and procedures;
- have responsibility and accountability for individuals for reporting and investigating reports of unethical practices; and
- use the Company's resources and property properly.

## 6. Taxation implications of the Entitlement Offer for Eligible Shareholders

This section is a general summary of the Australian income tax, goods and services tax (GST) and stamp duty implications of the Entitlement Offer for Eligible Shareholders.

Accordingly, Eligible Shareholders should seek and rely upon their own professional advice before concluding on the particular taxation treatment that will apply.

The comments in this section deal only with the Australian taxation implications of the Entitlement Offer if Eligible Shareholders:

- are a resident for Australian income tax purposes; and
- hold their Shares on capital account.

The comments do not apply if Eligible Shareholders:

- are not a resident for Australian income tax purposes; or
- hold their Shares as revenue assets or trading stock (which will generally be the case if you are a bank, insurance company or carry on a business of share trading); or
- are subject to the “taxation of financial arrangements” rules (commonly referred to as the TOFA rules) in Division 230 of the *Income Tax Assessment Act 1997 (Cth)* in relation to their holding of Shares, Entitlements or New Shares; or
- acquired the Shares in respect of which the Entitlements are issued under any employee share scheme; or
- acquired Entitlements otherwise than because they are an Eligible Shareholder (e.g. where the Entitlements are acquired on ASX).

This taxation summary is necessarily general in nature and is based on the Australian tax legislation and administrative practice in force as at the date of this booklet. It does not take into account any financial objectives, tax positions or investment needs of Eligible Shareholders.

The taxation implications of the Entitlement Offer will vary depending upon your particular circumstances. It is strongly recommended that you seek your own independent professional tax advice applicable to your particular circumstances. Neither Yancoal nor any of its Directors, officers or employees, nor its taxation and other advisers, accepts any liability or responsibility in respect of any statement concerning taxation consequences, or in respect of the taxation consequences.

### 6.1 Income tax consequences of Entitlements

#### (a) Issue of Entitlements

The issue of the Entitlements should not, of itself, result in any amount being included in the assessable income of the Eligible Shareholders.

#### (b) Exercise of Entitlements

The Entitlements will be capital gains tax (CGT) assets. The exercise (i.e. taking up of the Entitlements) should not in itself give rise to an income tax nor a capital gains tax liability to the Eligible Shareholder.

The amount paid to exercise the Entitlements (i.e. the Offer Price) will form part of the cost base of the New Shares acquired through the take-up of the Entitlements.

The New Shares will be taken to be acquired by Eligible Shareholders on the same date the Entitlements are exercised.

#### (c) Sale of Entitlements on the ASX or transfer of Entitlements

If Eligible Shareholders sell their Entitlements on the ASX or otherwise, any capital gain or loss on disposal will be taxable under the CGT provisions. For CGT purposes, the Entitlements are taken to have been acquired by Eligible Shareholders on the same day on which existing Shares were acquired.

As Eligible Shareholders should have no cost base for their Entitlements, Eligible Shareholders should realise a capital gain equal to the sale price (or deemed market value

sale price if Entitlements are sold or transferred for no consideration) less certain incidental costs of disposal.

Individuals, complying superannuation entities or trustees that have held their existing Shares for at least 12 months prior to the date of sale should be entitled to discount the amount of a capital gain resulting from the sale of the Entitlements (after the application of any current year or carry forward capital losses). The amount of this discount is 50% for individuals and trustees and 33 1/3% for complying superannuation entities. This is referred to as the 'CGT discount'.

Any net capital gain realised after the offset of any current year or carry forward capital losses and the application of any applicable CGT discount should be included in the assessable income of the Eligible Shareholder.

**(d) Sale of Entitlements through the Entitlement Offer Bookbuild for Renouncing Shareholders**

Eligible Shareholders who do not exercise, sell or transfer their Entitlements will have their Entitlements sold on their behalf through the Entitlement Offer Bookbuild process. Any proceeds in excess of the Offer Price (defined as the Entitlement Offer Premium) will be paid to Eligible Shareholders net of expenses and withholdings required by law.

Any Entitlement Offer Premium paid to Eligible Shareholders should be taxable under the CGT provisions in the manner set out in Section 6.1(c) above.

In July 2017, the Commissioner released *Taxation Ruling TR 2017/4: Income tax: taxation of rights and retail premiums under renounceable rights offers where shares are held on capital account (TR 2017/4)*. In TR 2017/4 the Commissioner stated that any retail premium for renounceable entitlement offers is treated as a capital gain and should be taxable under the CGT provisions.

Having regard to the features of the Entitlement Offer specifically, the fact that the Entitlements are tradeable on ASX, renounceable, and the fact that Entitlements which are not exercised by Eligible Shareholders will be sold on their behalf under the Entitlement Offer Bookbuild, TR 2017/4 should apply.

## **6.2 Income tax consequences on New Shares**

**(a) Dividends on New Shares**

Any future dividends made in respect of New Shares will generally be subject to the same income taxation treatment as dividends or other distributions made on existing Shares held in the same circumstances.

Dividends may be paid to Eligible Shareholders and franking credits may be attached to such dividends.

Franking credits broadly represent the extent to which Australian corporate tax has been attributed to the dividend. It is possible for a dividend to be fully franked, partly franked or unfranked. Currently, the Company has a negligible franking account balance and accordingly, the Company may generally only distribute unfranked dividends until such time as franking credits are available to the Company in the future. It should be noted that the concept of a dividend for Australian income tax purposes is very broad and can include payments that are made in respect of such things as off-market share buy-backs.

**(i) Individuals and complying superannuation entities**

Eligible Shareholders who are individuals or complying superannuation entities are required to include both the dividend and associated franking credit (if any) in their assessable income.

Eligible Shareholders should be entitled to a franking tax offset equal to the franking credit attached to the dividend which may be applied to reduce the Eligible Shareholders' income tax payable. Eligible Shareholders' should be entitled to a tax refund where the tax offset exceeds the tax that is otherwise payable by the Eligible Shareholder.

To the extent that the dividend is unfranked, the Eligible Shareholder will generally be taxed at their prevailing marginal rate on the dividend received with no tax offset.

**(ii) Corporate shareholders**

Eligible Shareholders who are corporate shareholders are required to include both the dividend and associated franking credit (if any) in their assessable income.

Eligible Shareholders are allowed a tax offset up to the amount of the franking credit on the dividend. Excess franking credits received cannot give rise to a refund for a corporate shareholder but can be converted into carry forward tax losses.

Corporate shareholders should be entitled to a credit in their own franking accounts equivalent to the franking credit on the distribution received. This will allow the corporate shareholder to pass on the benefit of the franking credits to its own shareholder(s) on the payment of dividends.

**(iii) Trusts and partnerships**

Eligible Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include both the dividend and associated franking credit (if any) in calculating the net income of the trust or partnership.

The relevant beneficiary or partner may be entitled to a tax offset equal to the franking credit included in the beneficiary's or partner's share of the net income of the trust or partnership.

**(iv) Shares held at risk**

The benefit of franking credits can be denied where an Eligible Shareholder is not a 'qualified person', in which case the Eligible Shareholder will not need to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a 'qualified person', two tests must be satisfied; namely the holding period rule and the related payment rule.

Under the holding period rule, an Eligible Shareholder is required to hold shares 'at risk' for at least 45 days continuously, not counting the day of acquisition or disposal. In relation to any particular dividend payment, if an Eligible Shareholders has not already satisfied the holding period rule on the ex-dividend date (the last day on which you can acquire a share which entitles you to a particular dividend payment for that share), the Eligible Shareholders must hold the shares until the 45-day period is met in order to qualify for franking benefits, including franking credits.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed A\$5,000. Special rules apply to trusts and beneficiaries.

Under the related payment rule, a different testing period applies where the Eligible Shareholder has made, or is under an obligation to make, a related payment in relation to the dividend. The related payment rule requires the Eligible Shareholder to have held the shares at risk for the continuous 45-day period as above but within the limited period commencing on the 45th day before, and ending on the 45th day after, the day the shares become ex-dividend.

Eligible Shareholders should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

**(b) Disposal of New Shares**

The disposal of a New Share will constitute a disposal for CGT purposes.

On disposal of a New Share, an Eligible Shareholder will make a capital gain if the capital proceeds on disposal exceed the cost base of the New Share. An Eligible Shareholder will

make a capital loss if the capital proceeds are less than the reduced cost base of the New Share. The cost base of New Shares is described in Section 6.1(b) above.

In order to be eligible for the CGT discount, the New Shares must be held for at least 12 months after the date an Eligible Shareholder who is an individual, trustee or complying superannuation entity exercises their Entitlement. The applicable CGT discount factor is set out in 6.1(c) above.

If an Eligible Shareholder makes a capital loss, the Eligible Shareholder can only use that loss to offset other capital gains; i.e. the capital loss cannot be used to offset other assessable income. However, if the capital loss cannot be used in a particular income year it can be carried forward to use in future income years, providing certain tests are satisfied.

### **6.3 Provision of TFN and/or ABN**

Yancoal is required to deduct withholding tax from payments of dividends that are not 100% franked, at the rate specified in the Taxation Administration Regulations 1976 (currently 49%), and remit such amounts to the ATO, unless a TFN or an ABN has been quoted by the Eligible Shareholder, or a relevant exemption applies (and has been notified to Yancoal).

### **6.4 Other Australian taxes**

#### **(a) GST**

No GST will be payable by an Eligible Shareholder in respect of the issue, sale or taking up of Entitlements or the acquisition of New Shares. However, an Eligible Shareholder may be restricted in claiming input tax credits for expenses incurred in relation to these transactions.

#### **(b) Stamp duty**

No stamp duty will be payable by an Eligible Shareholder in respect of the issue, sale or taking up of Entitlements or the acquisition of the New Shares. However, we note that a liability for duty may arise if a shareholder (alone or together with associates) acquires 90% or more of the listed Shares in the Company, and the Company is a 'landholder' for duty purposes at that time.

## 7. Material contracts

The key terms of each material contract to which the Company is a party are summarised below; however, the summary of each material contract is not intended to be exhaustive.

### 7.1 Sale and Purchase Agreement

#### ***Overview of the Acquisition***

On 24 January 2017, the Company entered into the Sale and Purchase Agreement with Australian Coal Holdings Pty Limited and Hunter Valley Resources Pty Ltd, members of the Rio Tinto group, pursuant to which ACH and HVR agreed to sell 100% of the shares in Coal & Allied to the Company. The Sale and Purchase Agreement was amended by three amending deeds dated 23 March 2017, 20 June 2017 and 26 June 2017. The description of the Sale and Purchase Agreement in this Section 7.1 reflects the terms of the Sale and Purchase Agreement as amended.

#### ***Consideration payable by the Company for the Acquisition***

Subject to the terms and conditions of the Sale and Purchase Agreement, the total purchase price to be paid by the Company to effect the Acquisition comprises a US\$2.45 billion cash payment at completion of the Acquisition. The Company has agreed to pay an additional US\$240 million of 'non-contingent' royalty payments to ACH. These payments are not conditional on the volume of saleable coal produced by Coal & Allied or the sale prices achieved for that coal. These payments are payable over a four-year period, as follows:

- Completion to December 2017 – US\$110 million;
- January 2018 to September 2018 – US\$90 million;
- January 2019 to February 2019 – US\$20 million;
- January 2020 – US\$10 million; and
- January 2021 – US\$10 million.

The Company is required to provide bank guarantees at Completion to secure payment of these non-contingent royalty payments.

The Company has also agreed to pay ACH a coal price linked contingent royalty, calculated as US\$2.0/t of attributable saleable production from Coal & Allied for a period of 10 years commencing on the third anniversary of completion of the Acquisition which will be payable if the Newcastle benchmark thermal coal price exceeds US\$75/t. The royalty rate (per tonne) and benchmark thermal coal price and indexed annually. The total amount payable under all coal price linked royalties is capped at US\$410 million.

To support the Acquisition, Yankuang has undertaken to ACH and HVR that if the Offer does not raise at least US\$2.1 billion, Yankuang will place the Company in sufficient funds for it to pay the purchase price at Completion under the Sale and Purchase Agreement. In addition, Yankuang has provided a US\$225 million cash deposit to ACH pending Completion of the Acquisition. This deposit will be forfeited if the Company fails to complete the Acquisition due to insufficient funding or default at Completion, but otherwise is returnable to Yankuang on Completion.

The purchase price assumes that Coal & Allied will have nil net debt and A\$(161) million of working capital on completion of the Acquisition. A post-Completion adjustment mechanism will apply to adjust the purchase price for actual net debt and working capital at completion of the Acquisition.

If certain outstanding subordinate approvals relating to MTW are not obtained within five (5) years of completion of the Acquisition, ACH must pay US\$90 million to the Company, which will be treated as a reduction of the Company's total purchase price. If the price adjustment is payable by ACH then the royalty payable on coal produced from the areas of MTW affected by the failure to obtain the outstanding subordinate approvals will not be subject to the benchmark thermal coal price threshold price condition described above.

#### ***Conditions precedent to completion of the Acquisition***

Completion of the Acquisition was subject to a number of conditions precedent, including:



- Yanzhou shareholders and shareholders of Rio Tinto and Rio Tinto plc approving the Acquisition;
- the Company receiving approval from the FIRB to effect Completion;
- the Company, Yanzhou and Yankuang obtaining the required PRC regulatory approvals to effect the implementation of the Acquisition;
- the Korea Fair Trade Commission and the Anti-monopoly Bureau of Ministry of Commerce of the PRC clearing the Acquisition, or the Acquisition being deemed to be cleared by the same;
- The Minister responsible for the *Mining Act 1992* (NSW) approving or consenting in writing to the purchase of the shares in Coal & Allied by the Company; and
- BLCP Power Limited (**BLCP**) (a Thai power generator) consenting to the novation of all of the rights and obligations of Rio Tinto under its long-term coal supply agreement with Rio Tinto to the Company,

all of which have been satisfied or waived as at the date of this booklet, other than the requirement for approval by Yanzhou shareholders which is expected to be satisfied on 25 August 2017.<sup>139</sup>

### ***Termination rights***

#### Mutual termination rights

Either the Company or Rio Tinto may terminate the Sale and Purchase Agreement prior to Completion if the conditions precedent are not satisfied or waived by 24 October 2017 provided that the Company and Rio Tinto each have the option to extend the conditions precedent end date for 30 days (meaning that if both the Company and Rio Tinto exercise their options to extend the conditions precedent end date, the conditions precedent end date will be 24 December 2017) or if the other party does not meet its completion obligations as set out in the Sale and Purchase Agreement.

#### The Company's termination rights

The Company may terminate the Sale and Purchase Agreement prior to Completion if it is unable to raise funding for the payment of the purchase price for the Acquisition on reasonably acceptable terms (although the Yankuang Back-stop Facility described in Section 7.10 will be relevant in determining whether this termination right remains available). If the Company validly terminates the Sale and Purchase Agreement as a result of inability to secure the required funding, the Company will be required to pay a termination fee of US\$23.5 million to Rio Tinto.

The Sale and Purchase Agreement will automatically terminate if Rio Tinto is, or will be, unable to comply with its completion obligations on the date of Completion of the Acquisition as a result of any customer of or supplier to Rio Tinto obtaining an injunction or other order which prevents Rio Tinto from performing or complying with its obligations.

### ***MDP Tag-along Agreement***

As set out in the Company's ASX announcement of 24 May 2017, the Company made an irrevocable tag-along offer to MDP to acquire HVOR's 32.4% interest in HVO (**MDP HVO Interest**) for \$US710 million (**MDP Tag-along Agreement**). HVOR is a wholly owned subsidiary of MDP. MDP accepted the offer on 12 June 2017. Completion of the MDP Tag-along Agreement will occur on the later of (i) the date which is six months after the date of Completion of the Acquisition (or an earlier date specified by Yancoal); and (ii) 10 business days after fulfilment of any remaining conditions precedent to the MDP Tag-along Agreement.

Following Completion of the Acquisition, the only outstanding condition precedent to the MDP Tag-along Agreement will be the Minister responsible for the *Mining Act 1992* (NSW) approving or consenting in writing to the purchase of HVOR's 32.4% interest in HVO by the Company or a

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<sup>139</sup> This approval is expected to be obtained at a meeting of Yanzhou shareholders to be held on 25 August 2017. Yankuang, which holds a majority of Yanzhou voting shares, has indicated that it will vote in favour the required resolution. The deemed waiver of the BLCP condition precedent will cease to be effective if the Entitlement Offer is withdrawn.

nominated purchaser (assuming that condition is not satisfied between the date of this booklet and completion of the Acquisition).

The Company has separately acquired a call option to purchase MDP's 28.9% interest in the Warkworth joint venture for \$230 million. This option may be exercised at any time from Completion of the Acquisition to 31 December 2018. However, if exercised, the completion of this acquisition would be conditional on (i) waiver (or non-exercise) of rights of pre-emption held by other participants in the Warkworth joint venture; (ii) completion of the MDP Tag-along Agreement; (iii) receipt of regulatory approvals (comprising, to the extent required, PRC regulatory approvals and Australian foreign investment approval); and (iv) to the extent required, receipt of Yancoal and Yanzhou shareholder approvals. No decision has been made by the Company whether or not to exercise the option at this point. A US\$10 million deposit is payable if the call option is not exercised prior to completion of the MDP Tag-along Acquisition (with such deposit reducing the purchase price if the Warkworth call option is subsequently exercised).

Under the Glencore Transaction, Glencore has agreed to procure that its wholly owned subsidiary (Anotero), acquires HVOR's 32.4% interest in HVO in place of Yancoal as the purchaser under the MDP Tag-along Agreement. The Glencore Transaction is conditional on MDP agreeing to sell HVOR's 32.4% interest directly to Glencore (and agreeing to terminate the MDP Tag-along Agreement)<sup>140</sup> and receipt of regulatory approvals.

The MDP Tag-along Agreement is required by, but is a separate legal arrangement to, the Acquisition. In particular, the MDP Tag-along Agreement must complete within six months of Completion assuming NSW Government approval of the MDP Tag-along Agreement is satisfied before that date. As a consequence, the Acquisition will have completed before the Company has a legal obligation to complete the MDP Tag-along Agreement.

#### ***Warranties and indemnities***

The Sale and Purchase Agreement contains warranties and indemnities that can be considered customary for an agreement such as the Sale and Purchase Agreement and the nature of the Coal & Allied business.

#### ***Conduct of business restrictions***

Prior to completion of the Acquisition, except as expressly permitted by the Sale and Purchase Agreement or consented to by the Company in writing, Rio Tinto must conduct the business in its ordinary and usual course in accordance with approved budgets and plans and must obtain the prior written approval of the Company to enter into certain material transactions.

Rio Tinto must also keep the Company informed as to material issues and give reasonable access.

#### ***Transitional Services Agreement***

A transitional services agreement has been prepared by the parties and will be entered into at completion.

#### ***Post-completion obligations***

The Sale and Purchase Agreement requires the Company to replace the performance bonds provided by Coal & Allied for HVO and MTW (which have been ultimately provided or supported by Rio Tinto) within 10 business days following completion of the Acquisition.

## **7.2 Offtake arrangements**

In connection with the Acquisition and the Offer, the Company has been in discussions with General Nice and Taizhong and has entered into coal sale agreements and a marketing arrangement. General Nice and Taizhong have agreed to participate in the Placement.

Under the agreements the Company will provide thermal coal to each of Tianjin Belong Faith Energy Minerals Co., Ltd, a subsidiary of General Nice, and Hong Kong Taizhong Energy Pty Ltd, a subsidiary of Taizhong, for a term not exceeding 36 months at a price linked to a published index on terms otherwise materially consistent with market standards. In addition, the Company

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<sup>140</sup> Otherwise the Company and Glencore will seek to implement other arrangements(s) for an equivalent 49% outcome.

has appointed Taizhong to be the exclusive marketing agent for the sale of coal by the Company to a specified customer in China.

### 7.3 Offer Management Agreement

The Company has entered into an Offer Management Agreement with the Joint Lead Managers. Under the Offer Management Agreement, the Joint Lead Managers were appointed by the Company on an exclusive basis, to act as joint lead managers and bookrunners for the Offer.

The Joint Lead Managers are not underwriting the Entitlement Offer.

The Joint Lead Managers will:

- use reasonable endeavours to procure institutional investors (who are not, to the best of the relevant Joint Lead Manager's knowledge, associates or related parties of Yanzhou) to provide commitments in favour of the Company to bid into the Entitlement Offer Bookbuild;
- use best endeavours to seek bids for Shares in the Entitlement Offer Bookbuild; and
- provide 'settlement support' only in respect of those persons who are existing clients of the relevant Joint Lead Manager and who bid into the Entitlement Offer Bookbuild and are allocated New Shares.

The obligations of the Joint Lead Managers are subject to the satisfaction of certain conditions precedent, including:

- each Underwriter entering into underwriting commitment letters with the Company (as described in section 7.4 below) and the Placement Investors' entering into placement commitment letters with the Company (as described in section 7.5 below);
- Yanzhou entering into a binding equity subscription commitment letter to subscribe for US\$1 billion of its Entitlements and renouncing its unused Entitlements to satisfy demand for Additional New Shares applied for by other Eligible Shareholders up to their Guaranteed Allocations;
- an amount equal to the Underwriters' underwriting commitments (other than in respect of Glencore's underwriting commitment) and the Placement Investors' placement commitments being paid into an escrow account before the Settlement Date;
- ASX not indicating that it will not admit the New Shares to quotation; and
- receipt by the Joint Lead Managers of certain customary opinions and reports from the Company and its advisers.

The Company has (subject to certain limitations) agreed to indemnify the Joint Lead Managers and their respective affiliates, successors or related bodies corporate and the respective directors, officers, agents, employees, representatives or advisers of each Joint Lead Manager or any of their respective affiliates, successors or related bodies corporate against losses in connection with the Offer.

The Company and the Joint Lead Managers have given certain representations, warranties and undertakings in connection with (among other things) the conduct of the Offer.

Each Joint Lead Manager has been engaged solely as an independent contractor and each Joint Lead Manager is acting solely in a contractual relationship with the Company on an arm's length basis. The engagement of each Joint Lead Manager by the Company is not intended to create any agency, fiduciary or other relationship between any of the Joint Lead Managers and the shareholders or any other investor.

Each Joint Lead Manager may (in certain circumstances, including having regard to the materiality of the relevant event) terminate the Offer Management Agreement and be released from its obligations under it on the occurrence of certain events on or prior to the settlement date of the Entitlement Offer, including (but not limited to) where:

- **(Acquisition)**

- the Sale and Purchase Agreement, the Yankuang Back-stop Facility or the shareholder debt facility referred to in Section 2.1(d)(i) of this booklet is terminated or amended in a material respect;
- the funding arrangements contemplated under the Yankuang Back-stop Facility or the shareholder debt facility referred to in Section 2.1(d)(i) of this booklet are terminated, or any event occurs which means the funding arrangements contemplated by the Yankuang Back-stop Facility or the shareholder debt facility referred to in Section 2.1(d)(i) of this booklet (as the case may be) will otherwise be unavailable to fund the Acquisition;
- **(Yanzhou)** Yanzhou's commitment letter to take up US\$1 billion of its Entitlements is terminated or amended in a material respect (without the agreement of the Joint Lead Managers) or Yanzhou does not perform its obligations under that agreement;
- **(Cornerstones)**
  - any of the placement commitment letters under the Placement are terminated or amended in a material respect (without the agreement of the Joint Lead Managers) or a Placement Investor does not perform its obligations under a placement commitment letter; or
  - any of the underwriting commitment letters described in section 7.4 below are terminated or amended in a material respect (without the agreement of the Joint Lead Managers) or an Underwriter does not perform its obligations under the underwriting commitment letter;
- **(Escrow)** the escrowed funds (comprising the committed funds from the Underwriters (other than Glencore) and the Placement Investors) are not, or are not able to be, released in accordance with the terms of the relevant escrow agreement;
- **(Delisting)** ASX announces that the Company will be removed from the official list or that any New Shares will be delisted or suspended from quotation by ASX for any reason;
- **(Market fall)** at any time from (and including) the date of opening of the Entitlement Offer Bookbuild to (and including) the business day before the Entitlement Offer settlement date, the S&P/ASX 200 Index falls below a level (**10% Down Level**) that is 10% or more below the level of that index as at the close of trading of ASX on the trading day immediately before the date of opening of the Entitlement Offer Bookbuild, and remains below that 10% Down Level at close of trading on 2 consecutive business days, or at close of trading on the business day immediately prior to the Entitlement Offer settlement date;
- **(Quotation)** ASX does not, or states that it will not, agree to grant official quotation of all the New Shares or the approval is subsequently withdrawn, qualified (other than by way of customary conditions) or withheld;
- **(Capital structure)** the Company alters its capital structure without the consent of the Joint Lead Managers, other than by issuing Shares required as a consequence of the exercise or conversion of options or SCNs currently on issue or pursuant to the terms of the Offer;
- **(Delay)** there are certain delays in the Offer timetable which are not consented to by the Joint Lead Managers;
- **(Withdrawal)** the Company withdraws the Entitlement Offer or Placement or indicates that it does not intend to or is unable to proceed with the Entitlement Offer or Placement;
- **(Certificate)** any certificate which is required to be furnished by the Company under the Offer Management Agreement is not furnished when required or a statement in that certificate is untrue or incorrect in a material respect;
- **(Insolvency)** the Company, a member of the Group which represents 5% or more of the consolidated assets or earnings of the Group, or Coal & Allied suffers an insolvency event;

- **(Material adverse change)** there is a material adverse change, or an event occurs which is likely to give rise to a material adverse change, in the assets, liabilities, financial position, results, condition, operations or prospects of a member of the Group;
- **(Offer documents)** a statement contained in the documents prepared in respect of the Offer materials is or becomes misleading or deceptive (including by omission) in a material respect or likely to mislead or deceive in a material respect, omits information required to be included, or there are no reasonable grounds for making any statements relating to future matters in the Offer documents;
- **(ASX waiver)** the ASX withdraws, revokes or amends the waiver of the ASX Listing Rules required for the Company to undertake the Offer;
- **(Fraud)** the Company, Coal & Allied or any of their respective directors or officers engage in any fraudulent conduct or activity whether or not in connection with the Offer;
- **(Indictable offence)** a director or senior manager of the Company or Coal & Allied is charged with an indictable offence relating to financial or corporate matters or a Director is disqualified from managing a corporation;
- **(Change in senior management or board)** there is a change to certain members of senior management or the Board provided that a change that occurs as a result of serious illness or death of the relevant individual must be material);
- **(Force majeure)** a force majeure event occurs, including an event or occurrence which makes it illegal for the Joint Lead Managers to satisfy their obligations under the Offer Management Agreement or for any committed Placement Investor, Underwriter or Yanzhou to satisfy their obligations under their various commitment letters;
- **(Investigation)** any of the following:
  - (i) ASIC issues or threatens to issue proceedings in relation to the Offer or commences any formal inquiry or investigation into the Offer;
  - (ii) ASIC or any other government agency (other than the Takeovers Panel) commences or gives notice of an intention to commence a prosecution of the Company or any director or employee of the Company:
    - other than in respect of the Offer<sup>141</sup>; or
    - in respect of the Offer; or
  - (iii) ASIC or any other government agency (other than the Takeovers Panel) commences or gives notice of an intention to commence a hearing or investigation into the Company or a member of the Group:
    - other than in respect of the Offer<sup>141</sup>; or
    - in respect of the Offer,

provided that where events under sub-clauses (i) or (iii) above arise prior to the opening of the Entitlement Offer Bookbuild and the relevant proceedings or threat of proceedings or inquiry or investigation or hearing or notice of intention to commence a hearing has been dealt with (so as to resolve the matter) within 10 business days (or by opening of the Entitlement Offer Bookbuild if that is earlier), then the event will not give rise to a right to terminate;
- **(Issue of New Shares)** the Company is prevented by law or a government body (including the Takeovers Panel) from allotting and issuing the New Shares;
- **(Other litigation)** the commencement of legal proceedings against the Company, any other member of the Group or against any director of the Company or any other member of the Group in that capacity;<sup>141</sup>

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<sup>141</sup> The Joint Lead Managers may only terminate the Offer Management Agreement and be released from their respective obligations if this event would amongst other things, have a material adverse effect on the success, marketing or settlement of the Offer, the value of the Shares of the Company or the willingness of investors to subscribe for Shares to be issued under the Offer.

- **(Breach)** the Company is in breach of any terms and conditions of the Offer Management Agreement;<sup>141</sup>
- **(Representations)** any representation or warranty given by the Company under the Offer Management Agreement is or becomes incorrect, untrue or misleading;<sup>141</sup>
- **(Information)** information supplied by or on behalf of the Company to the Joint Lead Managers for the purposes of conducting due diligence for the Offer, the Offer materials or the Offer, is false, misleading or deceptive (including by omission);<sup>141</sup>
- **(Corrective notice)** an obligation arises on the Company to give corrective notice to ASX in relation to the Offer, or the Joint Lead Managers consider that corrective notice is required;<sup>141</sup> or
- **(Change in law)** the introduction or announcement of a new law or policy in certain key countries which does or is likely to prohibit or regulate the Offer, capital markets or stock markets;<sup>141</sup>
- **(Charges)** a member of the Group charges, or agrees to charge, the whole or a substantial part of their respective business or property other than as disclosed in this booklet or agreed to by the Joint Lead Managers;<sup>141</sup>
- **(Contravention of law)** any of the following<sup>141</sup>:
  - a contravention by the Company of the Corporations Act, its Constitution, any of the ASX Listing Rules, any other applicable law or regulation (as amended or varied) or order or request made by or on behalf of ASIC, ASX or any government agency; or
  - any aspect of the Offer does not comply with the Corporations Act or the ASX Listing Rules any other applicable laws; and
- **(Market disruption)** there are material disruptions in financial or economic conditions in key markets or on key securities exchanges, or hostilities commence or escalate in certain key countries.<sup>141</sup>

The Company has agreed to pay the fees comprised of the following:

- to each Joint Lead Manager:
  - a fee of 1.5% of the gross Offer proceeds from investors introduced by that Joint Lead Manager; and
  - one-third of a fee of 1.5% of the Offer proceeds received from each person who participates in the Offer (except for Yanzhou or certain other investors who have been introduced by the Joint Lead Managers).
- to the relevant Joint Lead Manager as follows:
  - CICC a fee of 0.15%;
  - Morgan Stanley a fee of 0.15%; and
  - J.P. Morgan a fee of 0.05%,
 of the Offer proceeds; and
  - to Morgan Stanley a fee of 0.375% of the gross Offer Proceeds, other than proceeds received from Yanzhou under the Offer (**Ex-Yanzhou Proceeds**); and
  - J.P. Morgan a fee of 0.15% of the Ex-Yanzhou Proceeds.

In addition to the fees described above, Yancoal has agreed to reimburse the Joint Lead Managers for certain other agreed costs and expenses incurred by the Joint Lead Managers in relation to the Offer. Neither the Joint Lead Managers nor any of their respective related bodies corporate and affiliates, nor any of their respective directors, officers, partners, employees, representatives or agents have authorised or caused the issue of this booklet and they do not take any responsibility for this document or any action taken by you on the basis of information contained in this booklet. To the maximum extent permitted by law, each of the Joint Lead Managers and their respective related bodies corporate and affiliates and each of their respective directors, officers, partners, employees, representatives or agents exclude and disclaim all liability

for any expenses, losses, damages or costs incurred by you as a result of your participation in the Entitlement Offer and the information in this booklet being inaccurate or incomplete in any way for any reason, whether by negligence or otherwise. Neither each respective Joint Lead Manager nor any of their respective related bodies corporate and affiliates, nor any of their respective directors, officers, partners, employees, representatives or agents make any recommendations as to whether you or your related parties should participate in the Entitlement Offer, nor do they make any representations or warranties to you concerning this Entitlement Offer or any such information, and you represent, warrant and agree that you have not relied on any statements made by either Joint Lead Manager or any of their respective related bodies corporate and affiliates or any of their respective directors, officers, partners, employees, representatives or agents in relation to the New Shares or the Entitlement Offer generally.

#### **7.4 Underwriting commitment letters**

The Company has entered into separate underwriting commitment letters with each Underwriter. Under the underwriting commitment letters, each Underwriter has irrevocably agreed, in the event that the Entitlement Offer Bookbuild does not clear at or above the Offer Price, to subscribe for up to the number of New Shares equal to its Respective Proportion at the Offer Price.

Each Underwriter has given certain standard representations, acknowledgements, warranties and undertakings in connection with its obligations under the underwriting commitment letter. Each Underwriter, other than Glencore, has also undertaken to pay funds representing its Respective Proportion into an escrow account by no later than 2 business days prior to the settlement date, for the Entitlement Offer (**Settlement Date**) to be released to the Company on the Settlement Date to the extent necessary to pay for such number of New Shares allocated to it (up to its Respective Proportion).

For the avoidance of doubt, the termination of the Offer Management Agreement by the Joint Lead Managers does not affect the obligation of each Underwriter to underwrite its Respective Proportion of the Entitlement Offer.

The following specific terms apply to each Underwriter:

**(a) Lucion Group**

The Company has given certain limited representations, warranties, indemnities and undertakings to Lucion Group in connection with (among other things) the conduct of the Offer and the information disclosed in this booklet.

**(b) Glencore**

Glencore's underwriting commitment is subject to:

- the Company having received from Yanzhou a binding commitment to subscribe for at least US\$1 billion of its Entitlements at the Offer Price and that binding commitment not having been terminated;
- other Placement Investors and Underwriters having entered into binding placement or underwriting commitments (not containing termination provisions) to subscribe for or underwrite at the Offer Price, a total of at least US\$400 million of New Shares;
- settlement of the Offer (including the New Shares to be underwritten or subscribed for Glencore under its underwriting commitment) taking place on or before 30 November 2017;
- the Offer raising at least US\$1.7 billion;
- all Shares the subject of the Offer and any conversion of SCNs held by Yanzhou which occurs in conjunction with the Offer being issued at the Offer Price, or in the case of the SCNs, conversion price of US\$0.10; and
- on the Settlement Date (including as varied), there not being in effect any preliminary or final decision, order or decree issued by any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity which restrains, prohibits or impedes (or if granted could restrain, prohibit or impede), or otherwise materially

adversely impact on, the making of the Entitlement Offer or the completion of any transactions contemplated by the Entitlement Offer (whether subject to conditions or not) or on the ownership of Shares.

**(c) Cinda**

Cinda's obligations to subscribe for up to its Respective Proportion is conditional on receipt of FIRB approval and relevant PRC approvals (including Ministry of Finance).

In addition, under the terms of its underwriting commitment letter, Cinda may (in certain circumstances) terminate its obligation to subscribe for up to its Respective Proportion on the occurrence of certain events on or prior to 23 August 2017, including (but not limited to) where:

- an adverse change occurs in the condition, financial position or prospects of the Company or a related body corporate that is, in Cinda's reasonable opinion, material;
- the S&P/ASX All Ordinaries Index is at any time at close of trading on any two consecutive business days prior to the Settlement Date 90% or less of the level that index attained at the close of trading on the business day prior to the date of entry into the Cinda underwriting commitment letter;
- an insolvency event occurs;
- the Company or any of its subsidiaries is in breach of any provision of the underwriting commitment letter that, in Cinda's reasonable opinion, is material;
- an outbreak of hostilities not presently existing or an escalation of hostilities occurs (whether war has been declared or not) or a terrorist act is committed involving any one or more of Australia, New Zealand, the United Kingdom, the United States of America, the People's Republic of China (including the Special Administrative Region of Hong Kong), the countries of the former Union of Soviet Socialist Republics (excluding wars or hostilities within those countries), Indonesia or Japan which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;
- any relevant government adopts or announces a change in any applicable laws or governmental policies which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;
- the Company or any of its subsidiaries breaches its constitution which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;
- the Company or any of its subsidiaries or any officer of the Company or a related body corporate of the Company contravenes any provision of the Corporations Act, ASX Listing Rules or any other legislation of the Commonwealth of Australia or any State or Territory of Australia which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;
- there occurs a contravention by the Company of any applicable laws in relation to the Offer including without limitation the Corporations Act, the constitution of the Company or any of the ASX Listing Rules which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;
- approval for the quotation of all of the New Shares on the ASX is refused, not granted or granted subject to any condition which is unacceptable to Cinda (acting reasonably) or is subsequently withdrawn;
- three months or such other period agreed between Cinda and the Company elapses after the date of this booklet without the ASX granting quotation of the New Shares on the ASX;
- any warranty given by the Company under the underwriting commitment letter is not true or has ceased to be true in any respect which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;



- any officer of the Company or any of its subsidiaries is charged with or convicted of any criminal offence involving fraudulent or dishonest conduct;
- the Company alters, or announces an intention to alter, its capital structure or its constitution without the prior consent of Cinda (such consent not to be unreasonably withheld or delayed) which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;
- the Company or any of its subsidiaries gives security in favour of any person who is not a security holder at the date of the entry by Cinda into the underwriting commitment letter which would, in Cinda's reasonable opinion, materially and adversely affect the Company or the Offer;
- the Company withdraws this booklet;
- there is a significant change to the composition of the senior executives of the Company or of its board of directors;
- the receipt by the Company of a valid notice from Shareholders pursuant to sections 203D or 249D of the Corporations Act which in Cinda's reasonable opinion is prejudicial to the Offer;
- a judgment in an amount exceeding A\$20 million is obtained against the Company or any related body corporate of the Company and is not set aside or satisfied within five business days;
- the Company fails to provide Cinda with a copy of any draft announcement as to the progress or the result of the Offer or in respect of the Company generally prior to the making of such announcement;
- any information that is, in Cinda's reasonable opinion, material that was supplied at any time by or on behalf of the Company to it in respect of any aspect of the Company or any of its subsidiaries or the Offer is or becomes misleading or deceptive or omits any material information;
- a material statement in this booklet is found to be untrue, misleading or deceptive or it is found that this booklet omits any material information;
- if certain materials made available in connection with the Offer are in Cinda's reasonable opinion, misleading or deceptive or omit any material information;
- any circumstance arises after this booklet is lodged a consequence of which is either that the Company is required to either repay or offer refunds of the money received pursuant to the Offer; or
- ASIC applies for an order under Part 9.5 of the Corporations Act in relation to this booklet or the Offer or commences any investigation, examination or hearing or gathers information under Part 3 of the ASIC Act in connection with this booklet or the Offer.

## **7.5 Placement commitment letters**

The Company has entered into separate placement commitment letters with each Placement Investor. Under the placement commitment letters, each Placement Investor has irrevocably agreed to subscribe for the number of New Shares equal to its Placement Commitment.

Each Placement Investor has given certain standard representations, acknowledgements, warranties and undertakings in connection with its obligations under the placement commitment letter. Each Placement Investor has also undertaken to pay funds representing its Placement Commitment into an escrow account by no later than 2 business days prior to the Settlement Date, to be released to the Company on the Settlement Date to pay for the number of New Shares allocated to it equal to its Placement Commitment.

Each Placement Investor's commitment to subscribe for its Placement Commitment is irrevocable and cannot be terminated by the Placement Investor.

## 7.6 Yanzhou equity subscription letter

The Company has entered into a subscription letter with Yanzhou under which Yanzhou has undertaken to subscribe for US\$1 billion of its Entitlements at the Offer Price. Yanzhou has also undertaken not to subscribe for New Shares in excess of or in addition to its US\$1 billion commitment and to renounce such unused Entitlements (that is, its Entitlements in excess of its US\$1 billion commitment) under the Entitlement Offer, in favour of other Eligible Shareholders who apply for Additional New Shares up to their Guaranteed Allocation.

Yanzhou has given certain standard representations, acknowledgements, warranties and undertakings in connection with its obligations under the Yanzhou equity subscription letter.

Yanzhou's undertaking is conditional on the following:

- the Company determining to proceed with the Entitlement Offer and Placement of at least US\$2.1 billion in aggregate;
- Yanzhou's shareholders approving the Acquisition as contemplated by the shareholder circular issued by Yanzhou on 2 June 2017 (as supplemented by any supplementary shareholder circular issued by Yanzhou);
- each of the conditions precedent to completion of the Acquisition being satisfied or waived in accordance with the Sale and Purchase Agreement (as set out in section 7.1 of this booklet); and
- the Offer, including Yanzhou's subscription for US\$1 billion of its Entitlements (as described in section 7.6 of this booklet), proceeding to completion and not being terminated or withdrawn.

## 7.7 Yanzhou SCN conversion letter

Yanzhou has entered into an agreement with the Company and Yancoal SCN Limited under which it has undertaken to convert all of its SCNs into Shares at the Offer Price, to the maximum extent permitted having regard to the restrictions imposed under the ATP Order.<sup>142</sup> Conversion of Yanzhou's SCNs and the issue of Shares to Yanzhou will occur simultaneously with the issue of New Shares under the Offer.

Yanzhou has also undertaken that, to the extent any of its SCN's are not able to be converted at the time of issue of Shares under the Offer due to an Underwriter or Placement Investor terminating or not performing its obligations to subscribe for New Shares, it will waive any right it has to convert those residual SCNs into Shares pursuant to the SCN Terms<sup>143</sup>. Yanzhou will also procure that any transferee of any residual SCNs provides a legally binding undertaking to similar effect, for the benefit of the Company and Yancoal SCN Limited.

Yanzhou's undertakings and waivers are conditional on the following:

- (a) the Company determining to proceed with the Entitlement Offer and Placement of at least US\$2.1 billion in aggregate;
- (b) Yanzhou's shareholders approving the Acquisition as contemplated by the shareholder circular issued by Yanzhou on 2 June 2017 (as supplemented by any supplementary shareholder circular issued by Yanzhou);
- (c) each of the conditions precedent to completion of the Acquisition being satisfied or waived in accordance with the Sale and Purchase Agreement (as set out in section 7.1 of this booklet); and
- (d) the Offer, including Yanzhou's subscription for US\$1 billion of its Entitlements (as described in section 7.6 of this booklet), proceeding to the completion and not being terminated or withdrawn.

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<sup>142</sup> The ATP Order prevents Yanzhou from converting SCNs where such conversion would result in Yanzhou having voting power of more than 78% in Yancoal.

<sup>143</sup> If SCNs are not converted at the time of issue of New Shares under the Placement and Entitlement Offer for any other reason, Yanzhou has undertaken that it will not rely on any adjustment to the conversion price to below US\$0.10, even if the SCN Terms would otherwise have resulted in a lower adjusted conversion price.

The Company has given the following confirmations to Yanzhou in connection with its undertakings and waivers under the Yanzhou SCN conversion letter:

- provided the conditions in (b) and (c) above are satisfied, it will not terminate the Sale and Purchase Agreement and will proceed to Completion as expeditiously as possible;
- settlement of Yanzhou's subscription for US\$1 billion of its Entitlements (as described in section 7.6 of this booklet) will occur simultaneously with settlement of the remainder of the Offer and settlement of any conversion of Yanzhou's SCNs (if any); and
- it will ensure that the Offer is structured so that following settlement of Yanzhou's subscription for US\$1 billion of its Entitlements (as described in section 7.6 of this booklet) and the settlement of the remainder of the Offer and any conversion of Yanzhou's SCNs, Yanzhou holds at least 51% of the Shares.<sup>144</sup>

## **7.8 Bank guarantee facility – Letter of comfort**

The Company intends to refinance and substantially increase the bank guarantee facility described in Section 2.12(b)(iii), including for the purposes of obtaining bank guarantees in relation to the assets acquired following Completion of the Acquisition. This new syndicated guarantee facility would likely be secured by both the existing security currently provided to CBA and new security over the assets acquired pursuant to the Acquisition. The facility limit and other terms for the facility are yet to be finalised, but at this stage the facility could be for an amount of approximately A\$1 billion. See section 4.2(g) for further details.

The Company is currently negotiating the terms of this facility. Whilst there is no guarantee that the Company will be able to refinance and increase the facility limit in the manner intended (including in connection with the Glencore Transaction), a leading Australian bank has provided the Company with a letter of comfort under which it confirms that the proposed financing structure (including in connection with the Glencore Transaction) is bankable and supports A\$1 billion of contingent liabilities.

The letter of comfort provided to the Company by this leading Australian bank does not constitute a commitment by that bank (or any other financier) to extend or arrange credit or to underwrite or distribute any financial instrument.

Yanzhou has irrevocably undertaken to work with the Company in good faith to find viable solutions should the Company be unable to finalise the above facility.

## **7.9 BOC and CCB Syndicated Facility – Letter of comfort**

As set out in section 4.3(c), the Company has requested certain waivers and consents under the BOC and CCB Syndicated Facility in connection with the Acquisition and the Offer.

As at the date of this booklet, these consents and waivers have not yet been approved by BOC, however BOC has confirmed to the Company in writing that it does not foresee (in its capacity as a lender under the BOC and CCB Syndicated Facility only and not as agent under the BOC and CCB Syndicated Facility) that it does not foresee that the consents and waivers will not be approved by BOC.

It should be noted that BOC (in its capacity as a lender under the BOC and CCB Syndicated Facility) does not have the authority to approve the consents and waivers, without the consent of CCB.

## **7.10 Yankuang Back-stop Facility**

As described in Sections 1.6 and 2.11, Yankuang has provided a binding, irrevocable undertaking to the Company to provide, or otherwise procure its affiliates to provide, funding of up to US\$1 billion under the Yankuang Back-stop Facility. The terms referred to in this booklet, are (among other terms) set out in a letter from Yankuang dated on or about the date of this Booklet addressed to the Company, represented by its Independent Board Committee.

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<sup>144</sup> In the event that the issue of New Shares under the Offer is likely to reduce Yanzhou's shareholding in the Company below 51%, the Company will, to the extent necessary, issue fewer shares to the Underwriters such that Yanzhou's shareholding in the Company will remain at no less than 51% following completion of the Offer. This would result in the Offer raising less than intended.

## 7.11 Amendment to SCN Terms

The Company has amended the SCN Terms pursuant to an amending deed. The amendment to the SCN Terms has been agreed with Yancoal SCN Limited and Australian Executor Trustees Limited in accordance with the terms of the Unsecured Note Trust Deed dated 24 November 2017.

The amendments to the SCN Terms allow a holder of SCNs to elect to convert their SCNs at a higher conversion price than would otherwise be determined under the unamended SCN Terms. Conversion at a higher price results in a holder receiving fewer Shares on conversion than they would otherwise receive if conversion were to occur under the unamended SCN Terms. The amendments also allow for conversion to occur at a time specified in or determined in accordance with a notice given by Yancoal SCN Limited to ASX.

## 7.12 Glencore Implementation Deed

### ***Overview of the Glencore Transaction***

On 27 July 2017, the Company entered into a conditional binding implementation agreement with Glencore under which Yancoal and Glencore will establish a 51% (Yancoal) and 49% (Glencore) unincorporated joint venture in relation to HVO. Glencore has agreed to pay US\$1,139 million for this 49% interest, of which US\$710 million will be paid to HVOR for its 32.4% interest in HVO and US\$429 million will be paid to Yancoal for a 16.6% interest in HVO. Glencore will also acquire a 22.68% shareholding in Newcastle Coal Shippers under the Glencore Transaction.

Glencore has also committed to underwrite US\$300 million of the Entitlement Offer. This commitment is not conditional on completion of the Glencore Transaction.

### ***Transaction structure***

Glencore's 49% interest in HVO (to be held by Anotero, which is a wholly owned subsidiary of Glencore) will comprise:

- HVOR's 32.4% interest in HVO, to be acquired by Anotero (a subsidiary of Glencore) directly from HVOR, subject to MDP agreeing to this transaction; and
- Yancoal transferring a 16.6% interest in HVO to Anotero (a subsidiary of Glencore).

Completion of both steps will occur simultaneously, so that Glencore will hold a 49% interest in HVO on completion of the Glencore Transaction.

### ***Consideration***

The purchase consideration for Glencore's acquisition of a 49% interest in HVO is US\$1,139 million, of which US\$710 million will be paid to HVOR and the balance paid to Yancoal. Glencore has agreed to pay US\$1,139 million for its 49% interest, of which US\$710 million will be paid to HVOR for the acquisition of HVOR's 32.4% interest in HVO and US\$429 million will be paid to Yancoal for the acquisition of a 16.6% interest in HVO from Yancoal. Glencore will also pay to Yancoal 27.9% of the US\$240 million in future non-contingent royalty payments and 49% of the coal price linked contingent royalty payments associated with HVO that are payable by Yancoal to Rio Tinto for the Acquisition.

The Glencore Transaction will have an economic effective date of Completion, such that Glencore will be entitled to 49% of the net cash-flow generated by HVO from the period between Completion and completion of the Glencore Transaction (with such net cash-flow reducing the purchase price payable by Glencore at completion of the Glencore Transaction, assuming that HVO is net cash-flow positive during the relevant period).

The Glencore Transaction envisages that compensation may be payable to Mitsubishi Corporation RtM International in respect of termination of the Mitsubishi Marketing Representation Agreement and any such compensation will be shared between Yancoal and Glencore.

### ***Conditions precedent***

The conditions precedent to completion of the Glencore Transaction include:

- Glencore receiving approval from the FIRB to effect the completion of the Glencore Transaction;

- the Korea Fair Trade Commission, the Anti-monopoly Bureau of Ministry of Commerce of the PRC, the Australian Competition and Consumer Commission, the Japan Fair Trade Commission, the Taiwan Fair Trade Commission and the European Commission (if required) clearing the Glencore Transaction, or the Glencore Transaction being deemed to be cleared by the same;
- the Minister responsible for the *Mining Act 1992* (NSW) approving or consenting in writing to the tenements transfers and changes in ownership contemplated by the Glencore Transaction;
- Completion occurring; and
- MDP consenting to the nomination of Anotero as the purchaser of that interest under the MDP Tag-along Agreement (and termination of Yancoal's obligations under the MDP Tag-along Agreement) and the termination of the Mitsubishi Market Representation Agreement and existing HVO offtake rights (with such termination taking effect from completion of the Glencore Transaction) (**MDP Consent Condition**).<sup>145</sup>

As at the date of this booklet, none of those conditions precedent have been satisfied or waived. Glencore and Yancoal must use reasonable endeavours to ensure that the conditions precedent are satisfied.

### ***Termination rights***

Either Glencore or Yancoal may terminate the Glencore Implementation Deed prior to completion of the Glencore Transaction if the conditions precedent are not satisfied or waived by the date that is 10 months after Completion, in the case of the MDP Consent Condition, the date of Completion.

The Company may terminate the Glencore Implementation Deed if the underwriting commitment letter between Glencore and the Company terminates as a result of the exercise of any right of termination by Glencore or Glencore repudiates or otherwise fails to perform its obligations under the underwriting commitment letter.

### ***Warranties and indemnities***

The Glencore Implementation Deed contains warranties and indemnities that are back-to-back with those provided by Rio Tinto in respect of the Acquisition. Yancoal's liability under the warranties and indemnities (other than customary title warranties) is limited to 24.56% of the amount actually recovered by Yancoal for the corresponding warranty claim under the Sale and Purchase Agreement.

### ***Conduct of business restrictions***

Between Completion and completion of the Glencore Transaction, except as expressly permitted by the Glencore Implementation Deed or consented to by Glencore in writing, Yancoal must conduct the business of HVO in its ordinary and usual course in accordance with previously approved budgets and plans and must obtain the prior written approval of Glencore to enter into certain material transactions.

### ***Exclusivity***

Yancoal has provided 'no-shop' and 'no-talk' exclusivity undertakings in favour of Glencore in the period between the date of the Glencore Implementation Deed and Glencore/Anotero entering into a binding agreement to acquire HVOR's 32.4% interest in HVO or termination of the Glencore Implementation Deed.

### ***Yancoal – Glencore Joint Venture Arrangement***

Glencore and Yancoal will enter into a replacement joint venture agreement for HVO on completion of the Glencore Transaction. Under the replacement HVO Joint Venture Agreement simple majority decisions requires at least 70% of votes cast in favour (with voting entitlements based on percentage interests) so all decisions of the joint venture will require both Glencore and Yancoal to vote in favour for as long both parties have an interest of at least 30%. The agreed terms of the replacement HVO Joint Venture Agreement are set out in the Glencore Implementation Deed. The key terms of the replacement joint venture agreement for HVO are:

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<sup>145</sup> Otherwise the Company and Glencore will seek to implement other arrangement(s) for an equivalent 49% outcome.

- a management company (owned by Yancoal (51%) and Glencore (49%)) will be responsible for day-to-day management of the joint venture under the supervision of the joint venture management committee and in accordance with the directions of, and plans and budgets approved by, the joint venture management committee;
- the general manager of mining operations for HVO will be nominated by Glencore and selected by Yancoal;
- the financial controller for HVO will be nominated by Yancoal and selected by Glencore;
- sales and marketing of the coal produced by HVO will be carried out exclusively by Glencore and Yancoal as set out in Section 2.8(g);
- Glencore will provide all operating systems and support services for HVO (eg, HSEC systems, SAP, AP, HR, payroll, Technical Services, logistics management, coal sales administration and support services, finance, accounting, treasury, tax, legal, procurement services, IT etc.) on an exclusive and full cost recovery basis;
- all existing Coal & Allied commitments which relate to HVO will be joint venture costs and be shared between Yancoal and Glencore on a 51:49 basis – this includes the port and rail infrastructure capacity allocations to HVO;
- Glencore and Yancoal must each supply 1 million tonnes per annum of coal which meets the energy and quality specifications of the BLCP Contract to YAS on terms which are back-to-back with the Coal Supply and Transportation Agreement - Yancoal and Glencore will each have an optional entitlement to acquire such coal from HVO for market prices and terms;
- Glencore will also have the option to acquire 28% of the coal available under the Bee Creek contract;
- customary restrictions on related party transactions between the joint venture manager/marketing company and Yancoal/Glencore will apply –with specific regimes for coal blending and related party sales of plant and equipment;
- goods and services may be procured under Glencore group procurement contracts;
- each party holds customary pre-emptive rights and change of control rights with respect to the other party's interest in the joint venture; and
- each party holds customary rights on an event of default, including the option to buy-out the defaulting party's interest at a discount in certain scenarios.

## 8. Additional information

This booklet and the accompanying personalised Entitlement and Acceptance Form have been prepared by the Company.

No party other than the Company has authorised or caused the issue of the information in this booklet, or takes any responsibility for, or makes, any statements, representations or undertakings in this booklet.

### 8.1 Capital structure

#### ***Effect of the Offer on capital structure***

The approximate capital structure of the Company following settlement of the Offer is expected to be as follows:

Securities	Number
Shares on issue as at the date of this booklet	994,276,659
SCNs on issue	5,011 <sup>146</sup>
New Shares offered under the Placement	1,500,000,000
New Shares offered under the Entitlement Offer	23,464,929,152
Shares to be issued on SCN conversion <sup>147</sup>	18,000,031,000
Total Shares on issue following completion of the Offer and SCN conversion <sup>147</sup>	43,959,236,811

Note: Exact number of Shares issued under the Entitlement Offer depends on fractional Entitlements on the Record Date.

#### ***Financial effect of the Offer***

Please see Section 3 of this booklet for the financial effect of the Offer on the Company.

#### ***Impact on control***

The potential effect of the issue of New Shares pursuant to the Entitlement Offer on control of the Company and the consequences of that effect will depend on a number of factors, including the extent to which Eligible Shareholders take up New Shares under the Entitlement Offer.

The Company's current 78% shareholder, Yanzhou has committed to take up US\$1 billion of its Entitlements in the Entitlement Offer. Yanzhou has also committed to convert as many of its SCNs as it is able to convert having regard to certain restrictions imposed on its ability to convert SCNs by the ATP Order. This is expected to result in conversion of all of Yanzhou's SCNs.

The balance of the Entitlement Offer (apart from the US\$1 billion which Yanzhou has committed to take-up) is underwritten to the value of US\$1.3 billion by the Underwriters severally, in their Respective Proportions and in accordance with the Underwriter Allocation Policy.

Underwriter	Maximum underwriting commitment
Cinda	US\$750 million
Glencore	US\$300 million
Lucion Group	US\$250 million

<sup>146</sup> As at 31 December 2016 there were 18,005,042 SCNs on issue, but the 18,000,031 SCNs held by Yanzhou are proposed to be converted concurrently with settlement of the Offer. This assumes full take-up under the Offer. Refer to footnote below.

<sup>147</sup> Assuming full take-up under the Offer. For further information regarding the number of Shares to be issued on SCN conversion at different levels of investor participation, refer to Section 2.10.

Additionally, the following Placement Investors have committed to subscribe the following respective amounts in the Placement:

Investor	Amount committed
Taizhong	US\$100 million
General Nice	US\$50 million

The effect of the Offer and SCN conversion is likely to be to decrease Yanzhou's percentage shareholding in the Company to 65% / (28,775,519,994 Shares).<sup>148</sup>

The level of take-up by the Underwriters will depend on the level of take-up by other Eligible Shareholders or their assignees under the Entitlement Offer. The aggregate percentage holding of the Underwriters and Placement Investors, assuming various levels of take-up of New Shares and Additional New Shares<sup>149</sup> by other Eligible Shareholders and their assignees under the Entitlement Offer is set out in the below table.<sup>150</sup>

**Aggregate percentage holding of the Underwriters and Placement Investors Shares (% holding / # of Shares)**

		Eligible Shareholder take-up of Entitlements (by Eligible Shareholders other than Yanzhou) <sup>151</sup>				
		0%	25%	50%	75%	100%
Eligible Shareholder Guaranteed Allocation take-up (by Eligible Shareholders other than Yanzhou) <sup>152</sup>	0%	33% (14,500)	31% (13,674)	28% (12,384)	25% (11,093)	22% (9,803)
	25%	32% (13,893)	29% (12,602)	26% (11,311)	23% (10,021)	20% (8,730)
	50%	29% (12,820)	26% (11,530)	23% (10,239)	20% (8,948)	17% (7,658)
	75%	27% (11,748)	24% (10,457)	21% (9,167)	18% (7,876)	15% (6,585)
	100%	24% (10,675)	21% (9,385)	18% (8,094)	15% (6,804)	13% (5,513)

## 8.2 Eligible Shareholders

The information in this booklet contains an offer of New Shares and Additional New Shares to Eligible Shareholders and has been prepared in accordance with section 708AA of the Corporations Act. Please refer to Section 1.1 of this booklet for Eligible Shareholder criteria.

The Entitlement Offer is not being extended to any Shareholders outside Australia and New Zealand other than to certain institutional Shareholders and investors in certain foreign jurisdictions set out in Section 8.6 of this booklet. By returning your completed personalised

<sup>148</sup> Lucion Group may be regarded as an associate of Yanzhou, and in this event Yanzhou's percentage holding in the Company (when aggregated with any interest in the Company acquired by Lucion Group as a result of its Underwriting Commitment) is likely to be (up to 71% / 31,275,488,994 Shares).

<sup>149</sup> Up to their Guaranteed Allocation, being that number of additional New Shares which, together with New Shares which an eligible shareholder is entitled to acquire in the Entitlement Offer, will enable an eligible shareholder to maintain the same proportionate shareholding after allotment of all Offer Shares as it held at the Record Date.

<sup>150</sup> Assumes US\$2.5 billion Offer size, Yanzhou takes up US\$1 billion of its Entitlements, full conversion of all SCNs held by Yanzhou and performance by the Underwriters and Placement Investors of their obligations under the underwriting commitment letters and placement commitment letters (as applicable).

<sup>151</sup> Number of shares is expressed in millions.

<sup>152</sup> Number of shares is expressed in millions.



Entitlement and Acceptance Form or making a payment through BPAY®,<sup>153</sup> you will be taken to have represented and warranted that you satisfy each of the Eligible Shareholder criteria, including making the warranties and representations in Section 8.5 of this booklet. Due to legal restrictions, nominees and custodians may not send copies of this booklet or any material relating to the Entitlement Offer or accept the Entitlement Offer in relation to any person in the United States, or any other person acting for the account or benefit of persons in the United States, or to any person in any other jurisdiction outside Australia and New Zealand (other than certain institutions in the jurisdictions contemplated in the 'Selling Restrictions' contained in Section 8.6) except to beneficial Shareholders who are institutional or professional investors in certain foreign countries selected by the Company.

### **8.3 Foreign shareholders**

The New Shares being offered under this booklet are being offered to Shareholders with registered addresses in Australia and New Zealand (other than certain institutions in the jurisdictions contemplated in the 'Selling Restrictions' contained in Section 8.6).

The Entitlement Offer will not be offered to Ineligible Shareholders. The Company has determined that it is not economically viable for it to make offers to Ineligible Shareholders due to the cost of meeting compliance requirements with securities laws in each applicable jurisdiction in which Ineligible Shareholders reside. The Company reserves the right in its absolute discretion to offer the Entitlement Offer to a Shareholder with an address in the Company's share register outside Australia and New Zealand if the Company is satisfied that it is not precluded from lawfully issuing New Shares to that Shareholder either unconditionally or after compliance with conditions which the Board in its sole discretion regards as acceptable. However, to satisfy applicable ASX Listing Rule requirements, the Company expects to appoint a nominee and will issue that nominee with the entitlements to subscribe for New Shares that would otherwise have been available for subscription by Ineligible Shareholders. The nominee will arrange for the sale of those entitlements to certain institutional investors in the Entitlement Offer Bookbuild, and will work with the Company to distribute any Entitlement Offer Premium (net of expenses and withholdings required by law) proportionately to Ineligible Shareholders.

This booklet does not constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register the New Shares, or otherwise permit an offering of New Shares in any jurisdiction outside of Australia or New Zealand which may be restricted by law.

If you come into possession of this booklet, you should observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws.

The Entitlement Offer is not available to Shareholders that are in the United States or who are acting for the account or benefit of persons in the United States. Neither the Entitlements nor the New Shares offered and sold in the Entitlement Offer have been, nor will be, registered under the U.S. Securities Act, or under the securities laws of any state or other jurisdiction of the United States. Accordingly, Entitlements may not be issued to or exercised by, and the New Shares may not be offered or sold, directly or indirectly, to persons in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable U.S. state securities law. The Entitlements and the New Shares offered and sold in the Entitlement Offer may only be offered and sold to persons that are not in the United States and are not acting for the account or benefit of persons in the United States, in each case, in 'offshore transactions' in reliance on Regulation S under the U.S. Securities Act.

### **8.4 Director's Shareholdings**

Baocai Zhang, Greg Fletcher and Vincent O'Rourke (each of whom is a Director and, either directly or indirectly, holds Shares in the Company) intend to participate in the Offer.

The current shareholdings of Directors are as set out in the Company's most recent annual report, which is available at [www.yancoal.com.au](http://www.yancoal.com.au), and subsequent ASX appendix 3Ys lodged with ASX, which are available at [www.asx.com.au](http://www.asx.com.au).

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<sup>153</sup> Note that BPAY® payments can only be made in A\$.

## 8.5 Warranties made on acceptance of the Entitlement Offer

By completing and returning your personalised Entitlement and Acceptance Form or making a payment by BPAY®<sup>154</sup> you will be deemed to have irrevocably acknowledged, represented and warranted that you, and each person on whose account you are acting:

- acknowledge that you have fully read and understood both this booklet and your Entitlement and Acceptance Form in their entirety and you acknowledge the matters and make the warranties and representations and agreements contained in this booklet and the Entitlement and Acceptance Form;
- agree to be bound by the terms of the Entitlement Offer, the provisions of this booklet and the Constitution;
- authorise the Company to register you as the holder(s) of New Shares (and any Additional New Shares) issued to you;
- declare that all details and statements in the Entitlement and Acceptance Form are complete and accurate;
- declare that you are over 18 years of age (if you are an individual) and have full legal capacity and power to perform all your rights and obligations under the Entitlement and Acceptance Form;
- acknowledge that once the Company receives your Entitlement and Acceptance Form or any payment of Application Monies via BPAY®,<sup>155</sup> you may not withdraw your application or funds provided except as allowed by law;
- agree to apply for and be issued up to the number of New Shares specified in the Entitlement and Acceptance Form, or for which you have submitted payment of any Application Monies via BPAY®,<sup>156</sup> including, in each case, any Additional New Shares, at the Offer Price per New Share;
- authorise the Company, the Joint Lead Managers, the Registry and their respective officers or agents to do anything on your behalf necessary for New Shares (and any Additional New Shares) to be issued to you, including to act on instructions of the Registry upon using the contact details set out in your Entitlement and Acceptance Form;
- declare that you were the registered holder(s) at the Record Date of the Shares indicated on your personalised Entitlement and Acceptance Form as being held by you on the Record Date;
- acknowledge that the information contained in this booklet and your personalised Entitlement and Acceptance Form is not investment advice or financial product advice nor have they been prepared taking into account your investment objectives, financial circumstances or particular needs or circumstances. You acknowledge that this booklet and your personalised Entitlement and Acceptance Form is not a recommendation that New Shares (including Additional New Shares) are suitable for you given your investment objectives, financial situation or particular needs;
- acknowledge that this booklet is not a prospectus, product disclosure statement or disclosure document and does not contain all of the information that you may require in order to assess an investment in the Company and is given in the context of the Company's past and ongoing continuous disclosure announcements to ASX;
- acknowledge the statement of risks in Section 4 of this booklet and that investments in the Company are subject to risk;
- acknowledge that none of the Company, the Joint Lead Managers, or their respective related bodies corporate, affiliates or respective directors, officers, partners, employees, representatives, agents, consultants or advisers guarantee the performance of the Company, nor do they guarantee the repayment of capital;

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<sup>154</sup> Note that BPAY® payments can only be made in A\$.

<sup>155</sup> Note that BPAY® payments can only be made in A\$.

<sup>156</sup> Note that BPAY® payments can only be made in A\$.

- agree to provide (and direct your nominee or custodian to provide) any requested substantiation of your eligibility to participate in the Entitlement Offer and of your holding of Shares on the Record Date;
- authorise the Company to correct any errors in your personalised Entitlement and Acceptance Form or other form provided by you;
- represent and warrant that the law of any place does not prohibit you from being given this booklet and the Entitlement and Acceptance Form, nor does it prohibit you from making an application for New Shares (or Additional New Shares); and
- represent and warrant that your acceptance of the Entitlement Offer does not breach any laws in the jurisdiction in which you reside.

By completing and returning your personalised Entitlement and Acceptance Form or making a payment by BPAY®,<sup>157</sup> you will also be deemed to have irrevocably acknowledged, represented and warranted on your own behalf and on behalf of each person on whose account you are acting that you are an Eligible Shareholder or otherwise eligible to participate in the Entitlement Offer and:

- you and each person on whose account you are acting are not in the United States and are not otherwise a person to whom it would be illegal to make an offer of or issue of Entitlements, New Shares or Additional New Shares under the Entitlement Offer and under any applicable laws and regulations;
- the Entitlements, New Shares and Additional New Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction in the United States, or in any other jurisdiction outside Australia and, accordingly, the Entitlements may not be taken up, and the New Shares or Additional New Shares may not be offered, sold or otherwise transferred, except in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable securities laws;
- you and each person on whose account you are acting have not and will not send any materials relating to the Entitlement Offer to any person in the United States;
- if in the future you decide to sell or otherwise transfer the New Shares or Additional New Shares, you will only do so in the regular way transactions take place on the ASX where neither you nor any person acting on your behalf know, or have reason to know, that the sale has been pre-arranged with, or that the purchaser is, a person in the United States; and
- if you are acting as a nominee or custodian, each beneficial holder on whose behalf you are submitting the Entitlement and Acceptance Form is not in the United States, and you have not sent this booklet, the Entitlement and Acceptance Form or any information relating to the Entitlement Offer to any such person.

## 8.6 Foreign jurisdictions

The information in this booklet has been prepared to comply with the applicable requirements of the securities laws of Australia, New Zealand and the jurisdictions contemplated in this Section 8.6 (**Selling Restrictions**).

The information in this booklet does not constitute an offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer. No action has been taken to register or qualify the Entitlement Offer, the Entitlements, the New Shares or the Additional New Shares, or otherwise permit a public offering of the New Shares or Additional New Shares, in any jurisdiction outside of Australia. Return of the personalised Entitlement and Acceptance Form or your BPAY® payment will be taken by the Company to constitute an irrevocable representation by you that there has been no breach of any laws of a jurisdiction outside Australia, New Zealand or the jurisdictions contemplated in the 'Selling Restrictions' contained in this Section 8.6 .

The distribution of this booklet (including an electronic copy) outside Australia and the jurisdictions contemplated in the 'Selling Restrictions' contained in this Section 8.6 may be

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<sup>157</sup> Note that BPAY® payments can only be made in A\$.

restricted by law. If you come into possession of this booklet, you should observe such restrictions and should seek your own advice on such restrictions. Any non-compliance with these restrictions may contravene applicable securities laws.

**(a) Canada (British Columbia, Ontario and Quebec provinces)**

This booklet constitutes an offering of Entitlements and New Shares only in the Provinces of British Columbia, Ontario and Quebec (the "Provinces") and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such securities. This booklet is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are "accredited investors" within the meaning of NI 45-106 – *Prospectus and Registration Exemptions, of the Canadian Securities Administrators*.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this booklet, the merits of the Entitlements or the New Shares or the offering of such securities and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of Entitlements or New Shares or the resale of such securities. Any person in the Provinces lawfully participating in the Entitlement Offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the Entitlements or the New Shares in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements.

The Company as well as its Directors and officers may be located outside Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company or its Directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada and, as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

Any financial information contained in this booklet has been prepared in accordance with Australian Accounting Standards and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

Unless stated otherwise, all dollar amounts contained in this booklet are in Australian dollars.

***Statutory rights of action for damages and rescission***

Securities legislation in certain of the Provinces may provide purchasers with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defenses contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the Entitlements or the New Shares purchased pursuant to this booklet (other than (a) a "Canadian financial institution" or a "Schedule III bank" (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the Company if this booklet document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Company. This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In

particular, Section 130.1 of the *Securities Act* (Ontario) provides that, if this booklet contains a misrepresentation, a purchaser who purchases the Entitlements and the New Shares during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the Company, provided that (a) the Company will not be liable if it proves that the purchaser purchased such securities with knowledge of the misrepresentation; (b) in an action for damages, the Company is not liable for all or any portion of the damages that the Company proves does not represent the depreciation in value of such securities as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which such securities were offered.

Section 138 of the *Securities Act* (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

### ***Certain Canadian income tax considerations***

Prospective purchasers of the Entitlements and the New Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of such securities as any discussion of taxation related matters in this booklet is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

### ***Language of documents in Canada***

Upon receipt of this booklet, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the New Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

### **(b) China**

The information in this booklet does not constitute a public offer of the Entitlements or the New Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The Entitlements and the New Shares may not be offered or sold directly or indirectly in the PRC to legal or natural persons other than directly to "qualified domestic institutional investors", sovereign wealth funds and quasi-government investment funds.

### **(c) Hong Kong**

WARNING: This booklet has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this booklet or to permit the distribution of this booklet or any documents issued in connection with it. Accordingly, the Entitlements and the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO).

No advertisement, invitation or document relating to the Entitlements and the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Entitlements and the

New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Entitlements or New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this booklet have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this booklet, you should obtain independent professional advice.

**(d) New Zealand**

This booklet has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the **FMC Act**).

The Entitlements and the New Shares in the Entitlement Offer are not being offered to the public within New Zealand other than to existing Shareholders with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the FMC Act and the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016.

Other than in the Entitlement Offer, the New Shares may only be offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

In addition to the above, the Entitlements and the New Shares are not being offered to the public within New Zealand other than to existing Shareholders of the Company with registered addresses in New Zealand to whom the offer of these securities is being made in reliance on the Financial Markets Conduct Act 2013 and the Financial Markets Conduct (Incidental Offers) Exemption Notice 2016. The offer of New Shares is renounceable in favour of members of the public. This booklet has been prepared in compliance with Australian law and has not been registered, filed with or approved by any New Zealand regulatory authority. This booklet is not a product disclosure statement under New Zealand law and is not required to, and may not, contain all the information that a product disclosure statement under New Zealand law is required to contain.

**(e) Singapore**

This booklet and any other materials relating to the Entitlements and the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this booklet and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Entitlements and New Shares, may not be issued, circulated or distributed, nor may the Entitlements and New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

**(f) United Kingdom**

Neither the information in this booklet nor any other document relating to the Entitlement Offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the Entitlements or the New Shares.

This booklet is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and these securities may not be offered or sold in the United Kingdom by means of this booklet, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This booklet should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Entitlements or the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this booklet is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this booklet relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

**(g) United States**

This booklet and any material accompanying it may not be released or distributed in the United States. This booklet and any material accompanying it does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Entitlements, New Shares and Additional New Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States. The Entitlements may not be taken up by persons in the United States and the New Shares and Additional New Shares may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and the applicable securities laws of any state or other jurisdiction of the United States. The New Shares and Additional New Shares to be offered and sold to Eligible Shareholders will only be sold in 'offshore transactions' (as defined in Rule 902(h) under the U.S. Securities Act) in compliance with Regulation S thereunder.

## **8.7 Rights and liabilities attaching to Shares**

The rights and liabilities attaching to Shares in the Company are set out in the Constitution and are also regulated by the Corporations Act, ASX Listing Rules and the general law. This Section 8.7 briefly summarises the key rights attaching to the Shares.

- **Voting at a general meeting:** at a general meeting of the Company, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands (unless the proxy, representative or attorney represents more than one Shareholder, in which case, said proxy, representative or attorney has one vote even though he or she represents more than one Shareholder) and, on a poll, one vote for each fully paid Share held as at the relevant record time.
- **Meetings of members:** each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules.
- **Dividends:** subject in each case to applicable laws, the ongoing cash needs of the business, and the Directors' duties under law and to any Shareholder approval required under the Constitution (described below), the Directors must pay dividends of no less than 40% of the Company's net profit after tax (pre-abnormal items) each financial year, unless

the Directors decide to pay dividends of no less than 25% in order to prudently manage the Company's financial position.

- **Transfer of shares:** subject to the Constitution, Shares may be transferred by a proper transfer effected in accordance with ASX Settlement Operating Rules, by a written instrument of transfer which complies with the Constitution or by any other method permitted by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board may refuse to register a transfer of Shares where permitted to do so under the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules. The Board must refuse to register a transfer of Shares when required by the Corporations Act, ASX Listing Rules or ASX Settlement Operating Rules.
- **Issue of further shares:** subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules and any rights and restrictions attached to a class of shares, the Company may issue, or grant options in respect of, further Shares and other classes of shares in the Company on such terms and conditions as the Board resolves.
- **Winding up:** if the Company is wound up, then subject to any rights or restrictions attached to a class of shares, any surplus (after paying all the debts and liabilities of the Company and the costs, changes and expenses of winding up) must be divided amongst the Company's shareholders in proportion to the number of shares held by them. The amount unpaid on shares held by a shareholder is to be deducted from the amount that would otherwise be distributed to that shareholder.
- **Unmarketable parcels:** subject to the Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules, the Company may sell the shares of a member of the Company who holds less than a marketable parcel of Shares.
- **Share buy-backs:** subject to the Constitution, Corporations Act, ASX Listing Rules and ASX Settlement Operating Rules and to any Shareholder approval required under the Constitution (described below), the Company may buy back shares in itself on terms and at times determined by the Board.
- **Proportional takeover provisions:** the Constitution contains provisions for Shareholder approval to be required in relation to any proportional takeover bid for the Company. These provisions will cease to apply unless renewed by special resolution of the Shareholders by the third anniversary of the date of the Constitution's adoption.
- **Variation of class rights:** at present, the Company's only class of shares on issue are the Shares. Subject to the Corporations Act and the terms of issue of a class of shares, the rights attaching to any class of shares may be varied or cancelled:
  - with the consent in writing of the holders of three-quarters of the issued shares included in that class; or
  - by a special resolution passed at a separate meeting of the holders of those shares.

In either case, the holders of not less than 10% of the votes in the class of shares, the rights of which have been varied or cancelled, may apply to a court of competent jurisdiction to exercise its discretion to set aside such a variation or cancellation.

- **Dividend reinvestment plan:** the Constitution authorises the Board, on any terms and at its discretion, to establish a dividend reinvestment plan (under which any member may elect that the dividends payable by the Company be reinvested by a subscription for securities).
- **Directors – appointment and removal:** under the Constitution, the minimum number of Directors of the Company that may comprise the Board is four and the maximum is fixed by the Directors of the Company but may not be more than 11 unless varied by a resolution of members. Directors are elected at annual general meetings of the Company. Retirement will occur on a rotational basis so that no Director of the Company holds office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The appointment of Directors of the Company requires Shareholder approval in accordance with the Constitution. However, the Directors of the Company may appoint a Director to fill a casual vacancy on the Board



where the number of Directors falls below the minimum number provided for in the Constitution and in order to comply with any applicable laws, regulations or the ASX Listing Rules (including the ASX Listing Rules in relation to the composition of the Board and any Board committees). Directors of the Company may be removed by ordinary resolution of Shareholders or by written notice to the Company from shareholder(s) holding a majority of shares conferring the right to vote.

- **Directors – voting:** questions arising at a meeting of the Board will be decided by a majority of votes of the Directors of the Company present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote.
- **Directors – remuneration:** the Constitution provides that Directors are entitled to such remuneration as approved by Shareholders as required under the Constitution (described below) but which must not exceed in aggregate the maximum amount fixed by members in a general meeting.
- **Indemnities:** the Company, to the extent permitted by law, indemnifies each Director of the Company against any liability incurred by that person as an officer of the Company. The Company, to the extent permitted by law, may pay, or agree to pay, a premium for a contract insuring a Director of the Company against any liability incurred by that person as an officer of the Company and reasonable legal costs incurred by that person in defending an action for a liability of that person. The Company, to the extent permitted by law, may enter into an agreement or deed with a Director or a person who is, or has been, an officer of the Company, on such terms as the Directors think fit which are not inconsistent with the Constitution:
  - keep books of the Company and allow either or both that person and that person's advisers access to those books on the terms agreed;
  - indemnify that person against any liability incurred by that person as an officer of the Company and legal costs incurred by that person in defending an action for a liability of that person;
  - make a payment (whether by way of advance, loan or otherwise) to that person in respect of legal costs incurred by that person in defending an action for a liability of that person; and
  - keep that person insured in respect of any act or omission by that person while a Director or an officer of the Company, on the terms agreed (including as to payment of all or part of the premium for the contract for insurance).
- **Amendment:** the Constitution can only be amended by special resolution passed by at least three-quarters of Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of the Company. The Company must give at least 28 days' written notice of a general meeting of the Company.
- **Shareholder approval:** subject to all applicable laws, regulations and the ASX Listing Rules, Shareholder approval is required under the Constitution for a number of matters (either by way of a resolution of the Company or by notice from Shareholders holding a majority of shares). This is necessary to ensure compliance with the laws and regulations of the People's Republic of China. The matters which require member approval include the following:
  - the appointment, removal and remuneration of Directors of the Company (subject to the Directors appointing other Directors of the Company in the circumstances outlined above);
  - reductions in the Company's issued capital;
  - the annual financial statements of the Company;
  - the payment of dividends, and any decision by the Directors of the Company to rescind the payment of a dividend prior to payment;
  - loss recovery plans;
  - the terms of any employee incentive schemes;

- the withdrawing of any forfeiture of shares taken by the Company over unpaid or partly paid shares;
  - the appointment and removal of the auditor and the auditor's remuneration for the annual audit;
  - investments or disposals of assets by the Company with a value above specified thresholds;
  - issuing debentures and any borrowing or other means of financing by the Company above specified thresholds; and
  - entering into mortgages over Company assets or providing guarantees above specified thresholds.
- **Financial and information matters:** the Company must comply with its obligations under the 'Separation Agreement' between the Company and Yanzhou in relation to access to financial and other information and sharing of the enterprise resource planning platform, subject to the confidentiality obligations set out in that agreement.

## 8.8 No cooling-off rights

Cooling-off rights do not apply to an investment in New Shares or Additional New Shares. You cannot withdraw your application once it has been accepted.

## 8.9 Reporting and disclosure obligations

The Company is a 'disclosing entity' (as defined in section 111AC of the Corporations Act) and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, the Company is required to continuously disclose to ASX any information it has which a reasonable person would expect to have a material effect on the price or the value of its quoted securities. The Company is also required to prepare and lodge with ASIC and ASX both yearly and half-yearly financial statements accompanied by a Directors' declaration and report and an audit or review report.

The Company also has an obligation under the ASX Listing Rules to notify ASX immediately of any information concerning the Company of which it becomes aware and which a reasonable person would expect to have a material effect on the price or value of the Company's securities unless exceptions from disclosure apply under the ASX Listing Rules. ASX maintains records of company announcements for all companies listed on ASX. The Company's announcements may be viewed on ASX's website ([www.asx.com.au](http://www.asx.com.au)).

## 8.10 Not investment advice or financial product advice

The Entitlement Offer to which the information in this booklet relates is being made in reliance on section 708AA of the Corporations Act. The information in this booklet is not a prospectus, product disclosure statement, disclosure document or other offering document under the Corporations Act (or any other law) and has not been lodged with ASIC.

The information in this booklet does not purport to contain all the information that you may require to evaluate a possible application for New Shares or Additional New Shares, nor does it contain all the information which would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act. It should be read in conjunction with the Company's other periodic statements and continuous disclosure announcements lodged with ASX, which are available at [www.asx.com.au](http://www.asx.com.au)

The information in this booklet is also not financial product advice and has been prepared without taking into account your investment objectives, financial circumstances or particular needs or circumstances. The Company is not licensed to (and does not) provide financial product advice in respect of the New Shares or Additional New Shares.

The information in this booklet does not take into account the investment objectives, financial situation or needs of you or any particular investor. Before deciding whether to apply for New Shares or Additional New Shares, you should consider whether they are a suitable investment for you in light of your own investment objectives and financial circumstances and having regard to the merits or risks involved. You should conduct your own independent review, investigation and

analysis of Shares the subject of the Entitlement Offer. If, after reading this booklet, you have any questions about the Entitlement Offer, you should contact your stockbroker, accountant, financial adviser, taxation adviser or other independent professional adviser.

### **8.11 Information availability**

Eligible Shareholders in Australia and New Zealand can obtain a copy of this booklet during the Entitlement Offer period by calling the Company's Offer Information Line on 1300 059 020 (within Australia) or +61 3 9415 4292 (from outside Australia) at any time from 9.00am to 5.00pm (Sydney time) Monday to Friday during the Offer Period. Persons who access the electronic version of this booklet should ensure that they download and read the information in this booklet in its entirety. The electronic version of this booklet on the Company's website will not include a personalised Entitlement and Acceptance Form.

A replacement Entitlement and Acceptance Form can be requested by calling the Company's Offer Information Line or obtained online by visiting the website at [www.yancoal.com.au](http://www.yancoal.com.au) during the Entitlement Offer period. Neither this booklet nor the accompanying Entitlement and Acceptance Form may be distributed to, or relied upon by, persons that are in the United States; or otherwise distributed in the United States.

### **8.12 Regulatory relief**

The Company has obtained a waiver from ASX Listing Rule 7.1 in order to permit it to determine the number of Shares that it may issue under the Placement pursuant to ASX Listing Rule 7.1, by reference to the total number of Shares that will be on issue in the Company immediately following completion of the Entitlement Offer and SCN Conversion.

### **8.13 FIRB conditions**

Yancoal received confirmation from FIRB that the Commonwealth has no objection to the Acquisition on 12 April 2017. This confirmation of no objection is subject to:

- the Acquisition completing before 12 April 2018;
- compliance with standard FIRB tax conditions now applied to all FIRB approvals (relating to Yancoal and the Group's compliance with Australian taxation laws);
- compliance with existing governance conditions, which already apply to Yancoal, being:
  - Yancoal remaining headquartered and managed in Australia by a predominantly Australian management and sales team, with:
    - Yancoal having at least two Directors whose principal place of residence is in Australia, one of whom is independent of Yanzhou and its related entities;
    - the CEO and CFO having their principal place of residence in Australia;
    - the majority of the Board meetings in any calendar year being held in Australia; and
    - Yancoal's operating subsidiaries having at least two Directors whose principal place of residence is in Australia; and
  - Yancoal continuing to operate according to commercial objectives, including the maximisation of product prices and long-term profitability and value, with production sold on arm's-length terms and non-discriminatory basis to all customers at prices determined by reference to international benchmarks in line with market practice; and
- The CEO of Yancoal providing a report to FIRB on compliance with the above conditions annually or as required.

### **8.14 Privacy**

Chapter 2C of the Corporations Act requires information about you as a Shareholder (including your name, address and details of your Shares) to be included in the public register of the Company. Information is collected to administer your holding of Shares. Your personal information

may be disclosed to the Company. You can obtain access to your personal information by contacting the Registry at the address or telephone number listed in the corporate directory. The Registry's privacy policy is available on its website [www.computershare.com/au](http://www.computershare.com/au) or by emailing [privacy@computershare.com/au](mailto:privacy@computershare.com/au) and requesting a copy.

#### **8.15 Financial amounts**

Money as expressed in this booklet is in Australian dollars unless otherwise indicated. Any discrepancies between totals in tables and sums of components in tables in this booklet and between those figures and figures referred to in other parts of this document may be due to rounding.

#### **8.16 Governing law**

The information in this booklet, the Entitlement Offer, and dealings in the Entitlements and the contracts formed on acceptance of the Entitlement Offer pursuant to the personalised Entitlement and Acceptance Forms are governed by the law applicable in NSW, Australia. Each Shareholder who applies for New Shares or Additional New Shares submits to the non-exclusive jurisdiction of the courts of NSW, Australia.

#### **8.17 Disclaimer**

No person is authorised to give any information, or to make any representation, in connection with the Entitlement Offer that is not contained in this booklet. Any information or representation that is not in this booklet may not be relied on as having been authorised by the Company, or its related bodies corporate, in connection with the Entitlement Offer.

Except as required by law, and only to the extent so required, none of the Company, or any other person, warrants or guarantees the future performance of the Company or any return on any investment made pursuant to this booklet.

# Glossary

Term	Meaning
<b>2016A</b>	2016 annualised.
<b>A\$, AUD or Australian Dollar</b>	The lawful currency of Australia.
<b>AAS</b>	Australian Accounting Standards and other authoritative pronouncements and interpretations issued by the AASB.
<b>AASB</b>	Australian Accounting Standards Board.
<b>Abel</b>	Abel coal mine, located approximately 25 kilometres from the Port of Newcastle, NSW.
<b>Aboriginal Land Council</b>	Has the meaning in Section 4 of the <i>Aboriginal Land Rights Act 1983</i> (NSW),
<b>ACH</b>	Australian Coal Holdings Pty Ltd ACN 000 066 491.
<b>ACM</b>	Ashton Coal Mines Limited ACN 096 238 603.
<b>Acquisition</b>	The Company's proposed acquisition of 100% of the shares in Coal & Allied from wholly owned subsidiaries of Rio Tinto for US\$2.69 billion in completion and cash payments and US\$240 million in non-contingent royalty payments over five years.
<b>Additional New Shares</b>	New Shares applied for by an Eligible Shareholder in excess of their Entitlement.
<b>Anotero</b>	Anotero Pty Ltd ACN 618 503 674 (a wholly owned subsidiary of Glencore plc).
<b>APCT</b>	Abbot Point Coal Terminal.
<b>Applicant</b>	A person who makes an Application.
<b>Application</b>	An application for a specified number of New Shares by an Applicant under the Entitlement Offer.
<b>Application Monies</b>	Funds accompanying a completed Entitlement and Acceptance Form or funds paid, by BPAY <sup>158</sup> .
<b>Ashton</b>	Ashton coal mine, located in the Upper Hunter Valley, NSW.
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>ASIC Act</b>	Australian Securities and Investments Commission Act 2001 (Cth).
<b>ASX</b>	ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.
<b>ASX Corporate Governance Council</b>	The council responsible for developing the ASX Corporate Governance Principles and Recommendations.
<b>ASX Corporate Governance Principles and Recommendations</b>	The third edition of the ASX Corporate Governance Principles and Recommendations developed and released by the ASX Corporate Governance Council.
<b>ASX Listing Rules</b>	The official listing rules of ASX, as amended or waived from time to time.
<b>ASX Settlement Operating Rules</b>	The Settlement Operating Rules made by ASX Settlement Pty Ltd ABN 49 008 504 532.
<b>Athena</b>	Athena exploration project located adjacent to, and north of, the operating Minerva mine, QLD.
<b>ATP Order</b>	The order of the Australian Takeovers Panel made on 15 December 2014 in respect of the SCNs, as amended, varied or replaced from time to time.
<b>Audit and Risk Committee</b>	The audit and risk committee of the Company, established by the Board under its charter.
<b>Austar</b>	Austar coal mine, located south-west of Cessnock, NSW.

<sup>158</sup> Note that BPAY® payments can only be made in A\$.

<b>Term</b>	<b>Meaning</b>
<b>Bank Debt</b>	The debt set out in Section 2.11(c).
<b>Bee Creek Contract</b>	A contract to be entered into by YAS and Hail Creek Marketing Pty Ltd, a company controlled by Rio Tinto, pursuant to which YAS may purchase coal from Hail Creek Marketing Pty Ltd.
<b>Bengalla</b>	Bengalla coal mine, located in the Hunter Valley, NSW.
<b>Board or Board of Directors</b>	The Directors acting as a Board of the Company.
<b>BOC</b>	Bank of China Limited.
<b>BOC Facilities</b>	The facilities set out in 2.12(b)(i) and 2.12(b)(ii).
<b>BOC and CCB Syndicated Facility</b>	The syndicated facility set out in 2.11(c).
<b>BOCI</b>	BOCI Financial Products Limited.
<b>Bond Subscription Agreement</b>	The Bond Subscription Agreement entered into between Watagan, Industrial Bank Co. Limited, BOCI and UNE, dated 18 February 2016.
<b>BLCP</b>	BLCP Power Limited, an owner of a 1,400MW coal-fired power station located in Map Ta Phut, Thailand.
<b>BLCP Agreement</b>	A coal supply and transportation agreement dated 13 June 2003 entered into between ACH and BLCP.
<b>Bloomfield Group</b>	Big Ben Holdings Pty Limited ACN 008 434 562, trading as 'Bloomfield Group'.
<b>Cameby Downs</b>	Cameby Downs coal mine, located approximately 360 kilometres north-west of Brisbane, QLD.
<b>CBA</b>	Commonwealth Bank of Australia.
<b>CCB</b>	China Construction Bank Corporation, Sydney branch.
<b>CEC</b>	Chair of the Executive Committee.
<b>CEO</b>	Chief Executive Officer.
<b>CFO</b>	Chief Financial Officer.
<b>CGT</b>	Capital Gains Tax.
<b>Chairman</b>	The chairman of the Company.
<b>CHESSE</b>	The clearing house electronic sub-register system of share transfers operated by ASX Settlement Pty Ltd.
<b>CICC</b>	China International Capital Corporation Hong Kong Securities Limited.
<b>Cinda</b>	International High Grade Fund B, L.P. or such other entity determined by China Cinda Asset Management Co., Ltd, being in all cases entities associated with China Cinda Asset Management Co., Ltd
<b>Coal &amp; Allied</b>	Coal & Allied Industries Limited ABN 67 008 416 760.
<b>Coal Importer Shareholders</b>	The overseas buyers of coal shipped through PWCS.
<b>Coal Reserve or Coal Reserves</b>	A Reserve or Reserves of coal.
<b>Coal Resource or Coal Resources</b>	A Resource or Resources of coal.
<b>Coal Supply and Transportation Agreement</b>	A long-term coal supply and transportation agreement which may be entered into by ACH and the Company (or one of its subsidiaries), pursuant to which the Company will supply coal, meeting agreed specifications, to ACH and be responsible for the transportation of such coal from Australia to Thailand.
<b>Commonwealth</b>	The Commonwealth of Australia.

Term	Meaning
<b>Combined Group</b>	The Company and each of its subsidiaries following completion of the Acquisition.
<b>Commissioner</b>	The Commissioner of Taxation.
<b>Company or Yancoal</b>	Yancoal Australia Ltd ABN 82 111 859 119.
<b>Competent Person</b>	Has the meaning given to it under the JORC Code 2012.
<b>Completion</b>	The completion by the parties of the sale and purchase of the Sale Shares under the Sale and Purchase Agreement.
<b>Constitution</b>	The Constitution of the Company.
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth) (as notionally modified by ASIC Corporations (Non-Traditional Rights Issues) Instrument 2016/84).
<b>CPI</b>	Consumer price index.
<b>CY</b>	Calendar year.
<b>DBCT</b>	Dalrymple Bay Coal Terminal.
<b>Director</b>	A Director of the Company.
<b>Disclosure Committee</b>	A committee of the Company comprising the CEC, CEO, CFO, Company Secretary, General Counsel and Investor Relations General Manager.
<b>Disclosure Policy</b>	The disclosure policy of the Company, approved by the Board on 29 February 2016.
<b>Diversity Policy</b>	The diversity policy of the Company, approved by the Board on 29 February 2016.
<b>Donaldson</b>	The Donaldson coal mine, Abel coal mine and Tasman coal mine, located in the Hunter Valley, NSW.
<b>EBIT</b>	Earnings before interest and tax.
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>Eligibility Criteria</b>	<p>To be eligible to exercise Entitlements purchased on ASX a holder of such an Entitlement must:</p> <ul style="list-style-type: none"> <li>▪ be registered as the holder of the Entitlement as at the date of exercise;</li> <li>▪ if a retail investor, have a registered address on the Company's register for Entitlements in Australia or New Zealand and, if an institutional or professional investor, be permitted to exercise the Entitlement having regard to the 'Selling Restrictions' contained in Section 8.6;</li> <li>▪ not be in the United States and must not be acting for the account or benefit of a person in the United States (to the extent such a person holds Entitlements for the account or benefit of such persons in the United States); and</li> <li>▪ other than investors who have a registered address in Australia on the Company's register for Entitlements in Australia, be eligible under all applicable laws to exercise Entitlements without a prospectus, disclosure document, product disclosure statement or any lodgement, filing, registration or qualification.</li> </ul>
<b>Eligible Shareholder</b>	Has the meaning given to that term in Section 1.1.
<b>EMBA</b>	Executive Master of Business Administration.
<b>Entitlement</b>	The number of New Shares each Eligible Shareholder is offered under the Entitlement Offer as designated on their Entitlement and Acceptance Form.
<b>Entitlement and Acceptance Form</b>	The personalised form for participation in the Entitlement Offer attached to, or accompanying, this booklet.
<b>Entitlement Offer</b>	The pro-rata renounceable entitlement offer of 23.6 New Shares for every 1 Share held on the Record Date at US\$0.10 per New Share to raise US\$2.35 billion.
<b>Entitlement Offer Bookbuild</b>	All Eligible Shareholders who do not take up some or all of their Entitlement will have those renounced and the Entitlements offered for sale through a bookbuild process to be undertaken by the Joint Lead Managers.

<b>Term</b>	<b>Meaning</b>
<b>Entitlement Offer Premium</b>	Any proceeds in excess of the Offer Price per New Share that may be achieved under the Entitlement Offer Bookbuild.
<b>Entitlement Trading Period</b>	Has the meaning given to that term in Section 1.1.
<b>Excess Amount</b>	Any monies in excess of the full amount of Application Monies for an Eligible Shareholder's whole Entitlement.
<b>Executive Committee</b>	The committee formed in accordance with rule 9.2 of the Constitution.
<b>Export Coal</b>	Has the meaning given in Section 2.8.
<b>FEC</b>	Forward exchange contract.
<b>Felix Resources</b>	Felix Resources Limited, now known as Yancoal Resources Limited ACN 000 754 174.
<b>FIRB</b>	Foreign Investment Review Board.
<b>FOB</b>	Free on board.
<b>FOBT</b>	Free on board trimmed.
<b>FOR</b>	Free on rail.
<b>FX</b>	Foreign exchange.
<b>FY</b>	Financial year.
<b>General Nice</b>	Evercharm International Investments Ltd, an entity associated with General Nice Development Ltd.
<b>Glencore</b>	Glencore Coal Pty Ltd ACN 082 271 930 (a wholly owned subsidiary of Glencore plc).
<b>Glencore Implementation Deed</b>	The Implementation Deed dated 27 July 2017 between the Company and Glencore, pursuant to which Glencore agreed to acquire a 49% interest in HVO.
<b>Glencore Transaction</b>	Glencore's proposed acquisition of a 49% interest in HVO by acquiring a 16.6% interest in HVO from Coal & Allied Operations Pty Ltd ACN 000 023 656 and a 32.4% interest in HVO from HVOR (directly or indirectly) for US\$1.139 billion (US\$710 million of which will be payable to HVOR), plus the assumption of a pro-rata amount of the US\$240 million in non-contingent royalty payments across 5 years, and a coal price linked contingent royalty.
<b>globalCOAL Weekly NEWC</b>	A thermal coal index figure (in US\$) published weekly on the website of globalCOAL.
<b>Gloucester</b>	The deposits at the Stratford and Duralie mines and the Grant & Chainey Project, within the Gloucester Basin.
<b>Gloucester Coal</b>	Gloucester Coal Ltd ACN 008 881 712.
<b>Grant &amp; Chainey Project</b>	A deposit located immediately to the south of Stratford Mine, in the area between the Stratford and Duralie mines.
<b>Group</b>	The Company and each of its subsidiaries (including Coal & Allied).
<b>GST</b>	Goods and Services Tax.
<b>Guaranteed Allocation</b>	That number of Additional New Shares which, together with New Shares which an Eligible Shareholder is entitled to acquire in the Entitlement Offer, will enable an Eligible Shareholder to maintain the same proportionate Shareholding (after allotment of all New Shares and all Shares issued on SCN conversion) as it held at the Record Date.
<b>Hail Creek Marketing</b>	Hail Creek Marketing Pty Ltd ACN 080 001 985.
<b>Hail Creek Project</b>	Has the meaning given to that term in Section 2.8(e)(vi).
<b>Harrybrandt</b>	Harrybrandt exploration project located near Nebo, QLD.
<b>Health, Safety and Environment Committee</b>	The health, safety and environment committee of the Company, established by the Board under its charter.



<b>Term</b>	<b>Meaning</b>
<b>HIN</b>	Holder Identification Number.
<b>Howick</b>	Howick coal mine, which forms part of HVO.
<b>HSEC</b>	Health, safety, environment and community.
<b>Hunter Valley No.1</b>	Hunter Valley No. 1 coal mine, which forms part of HVO.
<b>HVO</b>	The 'Hunter Valley Operations', located 24 kilometres north-west of Singleton in the Hunter Valley region of NSW.
<b>HVOCS</b>	HVO Coal Sales Pty Ltd ACN 606 478 531.
<b>HVOR</b>	HVO Resources Pty Ltd ACN 608 108 952.
<b>HVO Joint Venture</b>	Unincorporated joint venture known as the "Hunter Valley Operations Joint Venture" established pursuant to the HVO Joint Venture Agreement.
<b>HVO Joint Venture Agreement</b>	The Joint Venture Agreement – Hunter Valley Operations dated 3 February 2016.
<b>HVR</b>	Hunter Valley Resources Pty Ltd ACN 151 471 242
<b>IBC</b>	Independent Board Committee.
<b>ICBC</b>	Industrial and Commercial Bank of China, Sydney branch.
<b>ICBC Facility</b>	The facility with ICBC as described in Section 2.11(b)(iv).
<b>Indicated Coal Resource</b>	Has the meaning given to mineral resource under the JORC Code 2012. Resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. For further details of Yancoal's, Coal & Allied's and the Combined Group's inferred, indicated and measured resource categories please refer to Section 2.4(d).
<b>Ineligible Shareholder</b>	Has the meaning given to that term in Section 1.1.
<b>Inferred Coal Resource</b>	Has the meaning given to mineral resource under the JORC Code 2012. Resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. For further details of Yancoal's, Coal & Allied's and the Combined Group's inferred, indicated and measured resource categories please refer to Section 2.4(d).
<b>Insider Trading Policy</b>	The insider trading policy of the Company, approved by the Board on 26 June 2012.
<b>JSM</b>	Japanese steel mills.
<b>Joint Lead Managers</b>	Morgan Stanley Australia Securities Limited, J.P. Morgan Australia Limited and China International Capital Corporation Hong Kong Securities Limited.
<b>JORC Code 2012</b>	The Australasian Code for Reporting of Exploration Results., Mineral Resources and Ore Reserves, 2012 Edition, prepared by the Joint Ore Reserves Committee of the Australasian Institution of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).
<b>Komatsu</b>	Komatsu Australia Corporate Finance Pty Ltd ACN 067 959 666.
<b>Lemington</b>	Lemington coal mine, which forms part of HVO.
<b>LIBOR</b>	London interbank offered rate.
<b>Lucion Group</b>	Shandong Lucion Investment Holdings Group Co., Ltd.
<b>MACH Energy</b>	MACH Energy Australia Pty Ltd ACN 608 495 441.
<b>Management</b>	Current members of the Company's management.
<b>Marketable Coal Reserve</b>	Has the meaning given to 'Marketable Coal Reserves' defined under the JORC Code 2012. For further details of Yancoal's, Coal & Allied's and the Group's marketable coal reserves, please refer to Section 2.4(d).
<b>MDP</b>	Mitsubishi Development Pty Ltd ACN 009 779 873.
<b>MDP HVO Interest</b>	MDP's 32.4% interest in the HVO Joint Venture the subject of the MDP Tag-along Agreement.

<b>Term</b>	<b>Meaning</b>
<b>MDP Tag-along Agreement</b>	The acquisition of the MDP HVO Interest pursuant to the tag-along rights contained in the HVO Joint Venture Agreement.
<b>Measured Coal Resource</b>	Has the meaning given to mineral resource under the JORC Code 2012. Resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. For further details of Yancoal's, Coal & Allied's and the Combined Group's inferred, indicated and measured resource categories please refer to Section 2.4(d).
<b>Middlemount</b>	Middlemount coal mine located 90 kilometres north-east of Emerald, QLD.
<b>Mitsubishi Corporation RtM International</b>	Mitsubishi Corporation RtM International Pte. Ltd ARBN 609 587 715.
<b>Mitsubishi Market Representation Agreement</b>	Has the meaning given to that term in Section 2.8(e)(iv).
<b>Mitsubishi RtM Japan</b>	Mitsubishi Corporation RtM Japan Ltd.
<b>Mitsubishi RtMI Offtake Agreement</b>	Has the meaning given to that term in Section 2.8(e)(i).
<b>Monash</b>	A prospective export thermal exploration project, consisting of two exploration licences located near existing infrastructure in the Hunter Valley, NSW.
<b>Moolarben</b>	Moolarben coal mine located within the Western Coalfields of NSW.
<b>Mount Pleasant</b>	Mount Pleasant coal operation, located in the Hunter Valley, NSW.
<b>MPCC</b>	Miller Pohang Coal Co Pty Ltd ACN 001 588 209.
<b>Mt</b>	Million metric tonnes.
<b>Mt Thorley</b>	Mt Thorley coal mine, which is integrated with the Warkworth coal mine, located in the Hunter Valley, NSW.
<b>Mtpa</b>	Million metric tonnes per annum.
<b>MTW</b>	The Mt Thorley mine and the Warkworth mine.
<b>NCIG</b>	Newcastle Coal Infrastructure Group.
<b>NDRC</b>	National Development and Reform Commission of the People's Republic of China.
<b>New Share</b>	A Share offered and issued under the Offer.
<b>Newcastle Coal Shippers</b>	Newcastle Coal Shippers Pty Ltd ACN 002 182 130.
<b>Noble</b>	Noble Group Limited.
<b>Noble Marketing</b>	Noble Resources Pte Ltd, now known as COFCO Resources, Pte. Ltd.
<b>Nomination and Remuneration Committee</b>	The Nomination and Remuneration committee of the Company, established by the Board under its charter.
<b>NSW</b>	New South Wales.
<b>NTA</b>	<i>Native Title Act 1993</i> (Cth).
<b>Offer</b>	The Entitlement Offer and the Placement.
<b>Offer Management Agreement</b>	The offer management agreement dated on or about the date of this booklet between the Company and the Joint Lead Managers.
<b>Offer Period</b>	Thursday, 10 August 2017 to Friday, 25 August 2017 or any other dates as may be determined by the Company.
<b>Offer Price</b>	The price payable for one New Share under the Offer, being US\$0.10.
<b>P&amp;L</b>	Profit and loss.
<b>PCI</b>	Pulverised coal injection.
<b>Peabody Energy</b>	Peabody Energy Australia PCI Pty Ltd ACN 096 001 955.

<b>Term</b>	<b>Meaning</b>
<b>Placement</b>	A strategic placement of New Shares to the Placement Investors at US\$0.10 per New Share to raise US\$150 million.
<b>Placement Commitment</b>	<ul style="list-style-type: none"> <li>• For General Nice means US\$50 million; and</li> <li>• For Taizhong means US\$100 million.</li> </ul>
<b>Placement Investor</b>	<ul style="list-style-type: none"> <li>• General Nice as to its Placement Commitment; and</li> <li>• Taizhong as to its Placement Commitment.</li> </ul>
<b>Platts SSCC</b>	The 'Platts Daily Metallurgical Coal Assessment' (Asia-Pacific coking coal (US\$/mt)) for "semi soft" FOB Australia with symbol MCSSA00.
<b>POSCO</b>	POSCO Australia Pty Ltd ACN 002 062 160.
<b>PRC</b>	People's Republic of China.
<b>Premier</b>	Premier coal mine, located in south-west WA.
<b>Pro Forma Historical Consolidated Balance Sheet</b>	Has the meaning given to that term in Section 3.1.
<b>Pro Forma Historical Consolidated Income Statement</b>	Has the meaning given to that term in Section 3.1.
<b>Pro Forma Historical Financial Information</b>	Has the meaning given to that term in Section 3.1.
<b>Pro Forma Historical Consolidated Statement of Cash Flows</b>	Has the meaning given to that term in Section 3.1.
<b>PWCS</b>	Port Waratah Coal Services.
<b>QBH</b>	Queensland Bulk Handling Pty Ltd ACN 010 284 509.
<b>QLD</b>	Queensland.
<b>Record Date</b>	7.00pm (Sydney, Australia time) on 7 August 2017.
<b>Recoverable Coal Reserve</b>	Has the meaning given to ore reserve under the JORC Code 2012. Reserves are sub-divided in order of increasing confidence into probable ore reserves and proved ore reserves.
<b>Registry or Share Registry</b>	Computershare Investor Services Pty Limited ABN 48 078 279 277.
<b>Renouncing Shareholder</b>	Has the meaning given in the Chairman's Letter.
<b>Renunciation and Transfer Form</b>	The personalised form for the transfer of Entitlements in the Entitlement Offer as obtained through the Company's Offer Information Line.
<b>Reserve or Reserves</b>	Has the meaning given to ore reserve under the JORC Code 2012. Reserves are sub-divided in order of increasing confidence into probable ore reserves and proved ore reserves. For further details of Yancoal's, Coal & Allied's and the Combined Group's probable ore reserves and proved ore reserves please refer to Section 2.4(d).
<b>Resource or Resources</b>	Has the meaning given to mineral resource under the JORC Code 2012. Resources are sub-divided, in order of increasing geological confidence, into inferred, indicated and measured categories. For further details of Yancoal's, Coal & Allied's and the Combined Group's inferred, indicated and measured resource categories please refer to Section 2.4(d).
<b>Respective Proportion</b>	<ul style="list-style-type: none"> <li>• For Cinda means US\$750 million.</li> <li>• For Glencore means US\$300 million.</li> <li>• For Lucion Group means US\$250 million.</li> </ul>
<b>RG TCT</b>	RG Tanna Coal Terminal.
<b>Rio Tinto</b>	Rio Tinto Limited ABN 96 004 458 404.

<b>Term</b>	<b>Meaning</b>
<b>Rio Tinto Services</b>	Rio Tinto Services Limited ACN 004 219 738.
<b>ROM</b>	Run of mine.
<b>Royalty Deeds</b>	Royalty deeds entered into between certain wholly owned subsidiaries of Coal & Allied (which hold interests in the HVO Joint Venture and MTW joint ventures) and ACH.
<b>Royalty Period</b>	10 years commencing from the day after the third anniversary of completion of the Acquisition.
<b>RT Payment Date</b>	Has the meaning given to that term in Section 2.7(d).
<b>RTSA</b>	Rio Tinto Shipping Asia (Pte) Ltd.
<b>RTSA Freight Contract</b>	Has the meaning given in Section 2.8(e)(i).
<b>Sale and Purchase Agreement</b>	The Sale and Purchase Agreement dated 24 January 2017, with amendment dated 26 June 2017, between the Company Australian Coal Holdings Pty Limited and Hunter Valley Resources Pty Ltd, members of the Rio Tinto group, pursuant to which Rio Tinto agreed to sell 100% of the shares in Coal & Allied to the Company.
<b>Sale Shares</b>	86,584,735 ordinary shares in the capital of Coal & Allied, being 100% of the total issued share capital of Coal & Allied.
<b>SCN</b>	Subordinated Capital Note issued by Yancoal SCN Limited pursuant to a prospectus dated 24 November 2014 and convertible into Yancoal Shares.
<b>SCN Terms</b>	The terms of issue of the SCNs.
<b>Settlement Date</b>	Has the meaning given to that term in Section 7.4.
<b>Shareholder Communications Policy</b>	The shareholder communications policy of the Company, adopted by the Board on 27 February 2015.
<b>Shareholder</b>	A holder of Shares as recorded on the Company's share register.
<b>Shareholder Debt</b>	The debt set out in Section 2.11(d).
<b>Share Trading Policy</b>	The share trading policy of the Company, adopted by the Board on 29 February 2015.
<b>Shares</b>	A fully paid ordinary share in the capital of the Company.
<b>Sojitz</b>	Sojitz Moolarben Resources Pty Ltd ACN 126 287 027.
<b>SRN</b>	Security Reference Number.
<b>State Significant Development Consent 6464</b>	Development consent for the 'Warkworth Continuation Project' granted by the NSW Minister for Planning to the application numbered SSD-6464.
<b>Strategy and Development Committee</b>	The strategy and development committee of the Company, established by the Board under its charter.
<b>Stratford Duralie, or Stratford and Duralie</b>	Stratford and Duralie coal mines or mineral deposits, as the context requires, located in the Gloucester Basin, NSW.
<b>SSCC</b>	Semi-soft coking coal.
<b>t</b>	Tonne.
<b>Taizhong</b>	Shandong Taizhong Energy Co., Ltd or a wholly owned subsidiary of it, as applicable.
<b>TERP</b>	The theoretical ex-rights price is a theoretical price at which Shares should trade immediately after the ex-date of the Entitlement Offer and takes into account the number of new securities to be issued under the Entitlement Offer, the Placement and SCN conversion. The TERP is a theoretical calculation only and the actual price at which Shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to TERP.
<b>ToP</b>	Take-or-pay.

<b>Term</b>	<b>Meaning</b>
<b>TR2017/4</b>	<i>Taxation Ruling TR 2017/4: income tax: taxation of rights and retail premiums under renounceable rights offers where shares are held on capital account.</i>
<b>Transitional Services Agreement</b>	A transitional services agreement to be entered into between Rio Tinto Services and Coal & Allied.
<b>UIG</b>	Urgent Issues Group.
<b>Underwriters</b>	<ul style="list-style-type: none"> <li>• Cinda severally as to its Respective Proportion;</li> <li>• Glencore severally as to its Respective Proportion; and</li> <li>• Lucion Group severally as to its Respective Proportion.</li> </ul>
<b>Underwriter Allocation Policy</b>	The priority order in which each Underwriter is required to subscribe for its Respective Proportion of Entitlements not taken up in the Entitlement Offer (if any), to be determined by the Company in consultation with the Underwriters following completion of the Entitlement Offer Bookbuild, but in the absence of any determination to the contrary, pro rata according to their Respective Proportions.
<b>UNE</b>	United NSW Energy Limited (incorporated in the British Virgin Islands, company number 1904353).
<b>US\$ Equivalent Amount</b>	Has the meaning given to that term in the Investment Overview.
<b>US\$, USD or US Dollar</b>	The lawful currency of the United States.
<b>U.S. Securities Act</b>	U.S. Securities Act of 1933, as amended.
<b>WA</b>	Western Australia.
<b>Warkworth</b>	Warkworth coal mine, which is integrated with the Mt Thorley coal mine, located in the Hunter Valley, NSW.
<b>Warkworth Coal Sales</b>	Warkworth Coal Sales Limited ACN 001 614 393.
<b>Watagan</b>	Watagan Mining Company Pty Ltd ACN 609 820 037.
<b>Watagan Agreements</b>	The Bond Subscription Agreement, the loan facility agreement entered into between Watagan and the Company, and other agreements or deeds entered into as part of or ancillary to the issue of debt bonds by Watagan to Industrial Bank Co. Limited, BOCI and UNE.
<b>Wilpeena</b>	Wilpeena exploration project, located in the Wilpeena area, QLD.
<b>WICET</b>	Wiggins Island Coal Export Terminal.
<b>Yancoal International</b>	Yancoal International (Holding) Co., Ltd.
<b>Yankuang</b>	Yankuang Group Co., Ltd.
<b>Yankuang Back-stop Facility</b>	The loan facility described in the letter from Yankuang to the Company (represented by its Independent Board Committee) dated on or about the date of this booklet in connection with the Acquisition, so as to fund a shortfall in the funds raised under the Offer up to a maximum of US\$1 billion, as set out in Section 2.11(d)(iv) of this booklet.
<b>Yanzhou</b>	Yanzhou Coal Mining Co., Ltd.
<b>Yarrabee</b>	Yarrabee coal mine located 40 kilometres north-east of Blackwater, QLD.
<b>YAS</b>	Yancoal Australia Sales Pty Ltd ACN 167 884 460.
<b>YTD</b>	Year to date.

# Appendix A – Historical financial information of Yancoal and Coal & Allied

## 1. Historical financial information of Yancoal

The summary historical financial information for the Company has been derived from the audited financial statements of the Company and the entities it controlled for the year ended 31 December 2016 after making pro forma adjustments for the de-consolidation of Watagan. The financial statements were audited by ShineWing Australia.

### 1.1 Watagan

The Company de-consolidated Watagan effective 31 March 2016. The summary financial information set out below is presented after making pro forma adjustments to the financial information as if the de-consolidation of Watagan was completed on 1 January 2016.

The following information should be read together with the other information contained in this booklet, including the investment risks in Section 4, to understand the basis, assumptions and limitations underlying the financial information presented. More detailed financial results are available in the Company's lodged consolidated financial statements for the financial year ended 31 December 2016 which can be obtained from [www.yancoal.com.au](http://www.yancoal.com.au).

### 1.2 Historical consolidated income statement

Set out below is a summary of the Company's audited consolidated income statement for the financial year ended 31 December 2016 together with the pro forma adjustments applied.

A\$ million	2016	Excluding Watagan	Yancoal pro forma information
Revenue	1,371.6	(24.0)	1,347.6
<b>Operating EBITDA</b>	<b>297.8</b>	<b>40.8</b>	<b>338.6</b>
Depreciation and amortisation	(132.6)	-	(132.6)
<b>Operating EBIT</b>	<b>165.2</b>	<b>40.8</b>	<b>206.0</b>
Finance costs <sup>159</sup>	(322.0)	0.9	(321.1)
Fair value losses recycled from hedge reserve	(133.3)	-	(133.3)
Stamp duty expensed	(12.2)	-	(12.2)
Transaction costs	(3.1)	-	(3.1)
Re-measurement of royalty	(6.4)	-	(6.4)
<b>(Loss)/profit before income tax</b>	<b>(311.8)</b>	<b>41.7</b>	<b>(270.1)</b>
Income tax benefit/(expense)	84.7	(20.5)	64.2
<b>(Loss)/profit after income tax</b>	<b>(227.1)</b>	<b>21.2</b>	<b>(205.9)</b>

Revenue has decreased by A\$56.0 million and operating EBITDA increased by A\$8.8 million to remove the operating performance of Austar, Ashton and Donaldson for the period from 1 January 2016 to 31 March 2016.

Revenue and operating EBITDA has increased by A\$32.0 million to reflect additional interest that would have been receivable on the A\$1,363 million loan to Watagan during the period 1 January 2016 to 31 March 2016.

The assets held by Watagan were classified as 'held for sale' as at 31 December 2016 and as such no depreciation was charged during the period up to de-consolidation.

<sup>159</sup> Finance costs include bank fees and other charges as they are considered debt service costs.

Finance costs have been reduced by A\$0.9 million to remove finance lease interest of Austar, Ashton and Donaldson during the period 1 January 2016 to 31 March 2016.

### 1.3 Historical consolidated balance sheet

Set out below is a summary of the Company's audited consolidated balance sheet as at 31 December 2016.

A\$ million	2016
<b>Current assets</b>	
Cash and cash equivalents	190.3
Trade and other receivables	435.7
Royalty receivable	31.2
Inventories	74.6
Other current assets	7.0
<b>Total current assets</b>	<b>738.8</b>
<b>Non-current assets</b>	
Trade and other receivables	406.9
Royalty receivable	167.7
Investments accounted for using the equity method	4.7
Property, plant and equipment	1,525.6
Mining tenements	2,127.6
Intangible assets	70.4
Exploration and evaluation assets	498.2
Deferred tax assets	1,339.1
Other non-current assets	5.8
Interest-bearing loan to associate	775.0
<b>Total non-current assets</b>	<b>6,921.0</b>
<b>Total assets</b>	<b>7,659.8</b>
<b>Current liabilities</b>	
Trade and other payables	467.1
Interest-bearing liabilities	20.2
Derivative financial instruments	0.6
Provisions	10.0
<b>Total current liabilities</b>	<b>497.9</b>
<b>Non-current liabilities</b>	
Interest-bearing liabilities	4,930.7
Deferred tax liabilities	762.2
Provisions	117.2
<b>Total non-current liabilities</b>	<b>5,810.1</b>
<b>Total liabilities</b>	<b>6,308.0</b>
<b>Net assets</b>	<b>1,351.8</b>
<b>Equity</b>	
Contributed equity	919.7
- Subordinated capital notes	2,184.1
Reserves	(816.6)
Accumulated losses	(935.4)
<b>Total equity</b>	<b>1,351.8</b>

Watagan was de-consolidated as at 31 March 2016 such that at 31 December 2016, there are no balance sheet pro forma adjustments.

## 1.4 Historical consolidated statement of cash flows

Set out below is a summary of the Company's audited consolidated statement of cash flows for the financial year ended 31 December 2016 together with the pro forma adjustments applied.

A\$ million	2016	Excluding Watagan	Yancoal pro forma information
<b>Cash flows from operating activities</b>			
Receipts from customers	1,141.0	(59.8)	1,081.2
Payments to suppliers and employees	(972.2)	60.9	(911.3)
Payment of transaction costs	(2.1)	-	(2.1)
Payment of stamp duty	(7.2)	-	(7.2)
Interest paid <sup>160</sup>	(269.3)	-	(269.3)
Interest received	85.9	31.9	117.8
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(23.9)</b>	<b>33.0</b>	<b>9.1</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	(352.6)	40.5	(312.1)
Payments for mining tenements	(0.1)	-	(0.1)
Payments for capitalised exploration and evaluation assets	(0.3)	-	(0.3)
Proceeds from sale of property, plant and equipment	0.8	-	0.8
Reduction of cash balance from loss of control of subsidiaries	(10.6)	10.6	-
Advances to jointly controlled entities	(39.8)	-	(39.8)
Advances to related entities	(35.0)	-	(35.0)
Cash transferred (to)/from restricted accounts	(28.4)	-	(28.4)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(466.0)</b>	<b>51.1</b>	<b>(414.9)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings from associate	623.4	-	623.4
Advance of borrowings to associate	(35.0)	(47.7)	(82.7)
Proceeds from interest-bearing liabilities - related entities	250.6	-	250.6
Repayment of interest-bearing liabilities - external	(197.8)	-	(197.8)
Payment of subordinated capital notes distribution	(99.8)	-	(99.8)
Repayment of promissory note	(16.2)	0.2	(16.0)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>525.2</b>	<b>(47.5)</b>	<b>477.7</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>35.3</b>	<b>36.6</b>	<b>71.9</b>
Cash and cash equivalents at the beginning of the financial year	159.0	(4.6)	154.4
Effects of exchange rate changes on cash and cash equivalents	(4.0)	-	(4.0)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>190.3</b>	<b>32.0</b>	<b>222.3</b>

Receipts from customers has decreased by A\$59.8 million, payments to suppliers and employees has decreased by A\$60.9 million, interest received has decreased by A\$0.1 million, payments for

<sup>160</sup> Includes bank fees and other charges paid during the period.



property, plant and equipment has decreased by A\$40.5 million and payments of finance lease liabilities has decreased by A\$0.2 million.

Advance of borrowings to associates has increased by A\$47.7 million to reflect the funding provided by the Group to Austar, Ashton and Donaldson for the period from 1 January 2016 to 31 March 2016.

Interest received has increased by A\$32.0 million to reflect additional interest income that would have been received on the A\$1,363 million loan to Watagan during the period 1 January 2016 to 31 March 2016.

## 2. Historical financial information of Coal & Allied

The summary historical financial information of Coal & Allied has been derived from the audited financial statements of Coal & Allied and the entities it controlled after making certain pro forma adjustments as detailed below for the years ended 31 December 2014, 2015 and 2016. The financial statements were audited by PricewaterhouseCoopers Securities Limited.

Coal & Allied disposed of certain material operations during the year ended 31 December 2016. The summary financial information set out below is presented after making pro forma adjustments to the financial information to reflect the consolidated financial information of Coal & Allied as if those disposals were completed on 1 January 2014.

The pro forma adjustments made comprise:

### (a) **Bengalla**

In March 2016, Coal & Allied's interest in Bengalla was sold to New Hope Corporation Limited. The pro forma adjustments remove the one-off gain on sale of Bengalla as well as all Bengalla assets and associated P&L and cash flow for the three year financial period.

### (b) **Mount Pleasant**

In August 2016, the Mount Pleasant thermal coal development project was sold to MACH Energy. The pro forma adjustments remove the one-off gain on sale of Mount Pleasant as well as all Mount Pleasant assets and associated P&L, and cash flow for the three-year financial period.

### (c) **32.4% interest in HVO**

In February 2016, Coal & Allied sold 32.4% of its interest in the HVO to MDP. The pro forma adjustments remove the one-off gain on sale of HVO beneficial interest as well as the 32.4% of HVO's assets and associated P&L and cash flow for the three-year financial period.

Effective from 1 January 2015 Coal & Allied voluntarily changed its accounting policy in relation to in-pit coal inventory whereby in future it would no longer recognise in-pit inventory. This resulted in the restatement of the relevant comparative periods that included the year ended 31 December 2014 included herein.

Certain adjustments to presentation have been made to reflect the accounting policies of Yancoal. This has resulted in certain reclassifications on the balance sheet which has not impacted net assets.

## 2.1 Historical consolidated income statement

Set out below is a summary of Coal & Allied's consolidated income statement after making the pro forma adjustments for the financial years ended 31 December 2014, 2015 and 2016.

A\$ million	2014	Adjustments	Coal & Allied pro forma information	2015	Adjustments	Coal & Allied pro forma information	2016	Adjustments	Coal & Allied pro forma information
Revenue	2,186.8	(657.6)	1,529.2	2,154.9	(633.6)	1,521.3	1,705.6	(64.9)	1,640.7
<b>Operating EBITDA</b>	<b>453.6</b>	<b>(177.9)</b>	<b>275.7</b>	<b>441.1</b>	<b>(158.6)</b>	<b>282.5</b>	<b>854.9</b>	<b>(379.5)</b>	<b>475.4</b>
Depreciation and amortisation	(194.5)	63.0	(131.5)	(184.2)	53.5	(130.7)	(124.9)	2.6	(122.3)
<b>Operating EBIT</b>	<b>259.1</b>	<b>(114.9)</b>	<b>144.2</b>	<b>256.9</b>	<b>(105.1)</b>	<b>151.8</b>	<b>730.0</b>	<b>(376.9)</b>	<b>353.1</b>
Finance costs	(31.1)	3.1	(28.0)	(15.7)	2.2	(13.5)	(6.7)	0.8	(5.9)
Redbank termination fee	(51.2)	-	(51.2)	-	-	-	-	-	-
<b>Profit/(Loss) before income tax</b>	<b>176.8</b>	<b>(111.8)</b>	<b>65.0</b>	<b>241.2</b>	<b>(102.9)</b>	<b>138.3</b>	<b>723.3</b>	<b>(376.1)</b>	<b>347.2</b>
Income tax (expense)/benefit	(47.9)	30.4	(17.5)	42.4	(86.5)	(44.1)	(326.5)	226.2	(100.3)
Mineral resource rent tax (expense/benefit)	(40.0)	9.1	(30.9)	-	-	-	-	-	-
<b>Profit/(Loss) after income tax</b>	<b>88.9</b>	<b>(72.3)</b>	<b>16.6</b>	<b>283.6</b>	<b>(189.4)</b>	<b>94.2</b>	<b>396.8</b>	<b>(149.9)</b>	<b>246.9</b>

## 2.2 Historical consolidated balance sheet

Set out below is a summary of Coal & Allied's consolidated balance sheet after making the pro forma adjustments as at 31 December 2014, 2015 and 2016.

A\$ million	2014	Adjustments	Coal & Allied pro forma information	2015	Adjustments	Coal & Allied pro forma information	2016	Adjustments	Coal & Allied pro forma information
<b>Current assets</b>									
Cash and cash equivalents	241.8	(10.7)	231.1	213.0	(4.3)	208.7	311.7	-	311.7
Trade and other receivables	184.0	(53.3)	130.7	129.6	(24.9)	104.7	275.9	-	275.9
Inventories	136.1	(35.2)	100.9	86.5	(17.5)	69.0	60.7	-	60.7
Other current assets	-	-	-	320.5	(320.5)	-	-	-	-

A\$ million	2014	Adjustments	Coal & Allied pro forma information	2015	Adjustments	Coal & Allied pro forma information	2016	Adjustments	Coal & Allied pro forma information
<b>Total current assets</b>	<b>561.9</b>	<b>(99.2)</b>	<b>462.7</b>	<b>749.6</b>	<b>(367.2)</b>	<b>382.4</b>	<b>648.3</b>	<b>-</b>	<b>648.3</b>
<b>Non-current assets</b>									
Trade and other receivables	-	-	-	-	-	-	0.1	-	0.1
Investments accounted for using the equity method	221.9	(0.1)	221.8	216.3	-	216.3	205.9	-	205.9
Land held for use or property development	1.1	-	1.1	1.1	-	1.1	0.9	-	0.9
Property, plant and equipment	1,653.6	(717.9)	935.7	1,243.0	(393.8)	849.2	762.3	-	762.3
Mining tenements	169.2	-	169.2	160.8	-	160.8	152.1	-	152.1
Intangible assets	28.8	(24.7)	4.1	27.4	(24.7)	2.7	2.2	-	2.2
Deferred tax assets	77.2	54.6	131.8	80.9	51.2	132.1	155.1	(16.3)	138.8
<b>Total non-current assets</b>	<b>2,151.8</b>	<b>(688.1)</b>	<b>1,463.7</b>	<b>1,729.5</b>	<b>(367.3)</b>	<b>1,362.2</b>	<b>1,278.6</b>	<b>(16.3)</b>	<b>1,262.3</b>
<b>Total assets</b>	<b>2,713.7</b>	<b>(787.3)</b>	<b>1,926.4</b>	<b>2,479.1</b>	<b>(734.5)</b>	<b>1,744.6</b>	<b>1,926.9</b>	<b>(16.3)</b>	<b>1,910.6</b>
<b>Current liabilities</b>									
Trade and other payables	263.7	(56.4)	207.3	252.1	(41.1)	211.0	346.2	8.9	355.1
Bank overdraft	-	-	-	0.6	-	0.6	-	-	-
Interest-bearing liabilities	292.7	-	292.7	-	-	-	-	-	-
Provisions	91.9	(40.5)	51.4	75.7	(30.5)	45.2	110.5	(40.2)	70.3
Tax payable	40.9	(29.7)	11.2	6.7	(7.0)	(0.3)	4.4	-	4.4
Other current liabilities	-	-	-	44.1	(44.1)	-	-	-	-
<b>Total current liabilities</b>	<b>689.2</b>	<b>(126.6)</b>	<b>562.6</b>	<b>379.2</b>	<b>(122.7)</b>	<b>256.5</b>	<b>461.1</b>	<b>(31.3)</b>	<b>429.8</b>
<b>Non-current liabilities</b>									
Interest-bearing liabilities	-	-	-	0.1	-	0.1	-	-	-
Deferred income	-	-	-	3.1	-	3.1	2.9	-	2.9
Deferred tax liabilities	188.4	(167.8)	20.6	71.8	(58.2)	13.6	11.3	-	11.3
Provisions	157.2	(33.5)	123.7	158.0	(22.3)	135.7	139.8	(12.8)	127.0
<b>Total non-current liabilities</b>	<b>345.6</b>	<b>(201.3)</b>	<b>144.3</b>	<b>233.0</b>	<b>(80.5)</b>	<b>152.5</b>	<b>154.0</b>	<b>(12.8)</b>	<b>141.2</b>
<b>Total liabilities</b>	<b>1,034.8</b>	<b>(327.9)</b>	<b>706.9</b>	<b>612.2</b>	<b>(203.2)</b>	<b>409.0</b>	<b>615.1</b>	<b>(44.1)</b>	<b>571.0</b>
<b>Net assets</b>	<b>1,678.9</b>	<b>(459.4)</b>	<b>1,219.5</b>	<b>1,866.9</b>	<b>(531.3)</b>	<b>1,335.6</b>	<b>1,311.8</b>	<b>27.8</b>	<b>1,339.6</b>

A\$ million	2014	Adjustments	Coal & Allied pro forma information	2015	Adjustments	Coal & Allied pro forma information	2016	Adjustments	Coal & Allied pro forma information
<b>Equity</b>									
Contributed equity	440.9	-	440.9	440.9	-	440.9	59.7	-	59.7
Reserves	6.7	(1.0)	5.7	11.7	(1.3)	10.4	10.3	-	10.3
Retained earnings	1,229.0	(458.4)	770.6	1,411.6	(530.0)	881.6	1,239.1	27.8	1,266.9
<b>Capital and Reserves attributable to Coal &amp; Allied</b>	<b>1676.6</b>	<b>(459.4)</b>	<b>1,217.2</b>	<b>1,864.2</b>	<b>(531.3)</b>	<b>1,332.9</b>	<b>1,309.1</b>	<b>27.8</b>	<b>1,336.9</b>
Non-controlling interests	2.3	-	2.3	2.7	-	2.7	2.7	-	2.7
<b>Total equity</b>	<b>1,678.9</b>	<b>(459.4)</b>	<b>1,219.5</b>	<b>1,866.9</b>	<b>(531.3)</b>	<b>1,335.6</b>	<b>1,311.8</b>	<b>27.8</b>	<b>1,339.6</b>

### 2.3 Historical consolidated statement of cash flows

Set out below is a summary of Coal & Allied's consolidated statement of cash flows after making the pro forma adjustments for the financial years ended 31 December 2014, 2015 and 2016.

A\$ million	2014	Adjustments	Coal & Allied pro forma information	2015	Adjustments	Coal & Allied pro forma information	2016	Adjustments	Coal & Allied pro forma information
<b>Cash flows from operating activities</b>									
Receipts from customers	2,239.3	(665.2)	1,574.1	2,175.0	(635.2)	1,539.8	1,555.2	(95.7)	1,459.3
Payments to suppliers and employees	(1,837.4)	596.2	(1,241.2)	(1,642.4)	566.4	(1,076.0)	(1,121.8)	(149.2)	(1,271.0)
Transaction costs paid	-	-	-	-	-	-	(439.5)	439.5	-
Interest paid	(21.1)	(0.5)	(21.6)	(7.9)	(0.2)	(8.1)	-	0.2	0.2
Interest received	5.3	-	5.3	5.5	-	5.5	17.5	-	17.5
Income taxes paid	(63.4)	33.2	(30.2)	(110.2)	49.1	(61.1)	(11.7)	(71.6)	(83.3)
Dividends received	12.4	-	12.4	12.2	-	12.2	13.1	-	13.1
<b>Net cash inflow/(outflow) from operating activities</b>	<b>335.1</b>	<b>(36.3)</b>	<b>298.8</b>	<b>432.2</b>	<b>(19.9)</b>	<b>412.3</b>	<b>12.8</b>	<b>123.0</b>	<b>135.8</b>
<b>Cash flows from investing activities</b>									

<b>A\$ million</b>	<b>2014</b>	<b>Adjustments</b>	<b>Coal &amp; Allied pro forma information</b>	<b>2015</b>	<b>Adjustments</b>	<b>Coal &amp; Allied pro forma information</b>	<b>2016</b>	<b>Adjustments</b>	<b>Coal &amp; Allied pro forma information</b>
Payments for property, plant and equipment	(79.2)	21.6	(57.6)	(63.6)	20.9	(42.7)	(40.8)	0.3	(40.5)
Payments for capitalised exploration and evaluation activities	(8.1)	7.7	(0.4)	(8.4)	7.9	(0.5)	-	-	-
Proceeds from sale of property, plant and equipment	2.0	0.3	2.3	4.1	(2.5)	1.6	9.0	-	9.0
Proceeds from divestment	-	-	-	-	-	-	1,069.0	(1,069.0)	-
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(85.3)</b>	<b>29.6</b>	<b>(55.7)</b>	<b>(67.9)</b>	<b>23.6</b>	<b>(41.6)</b>	<b>1,037.2</b>	<b>(1,068.7)</b>	<b>(31.5)</b>
<b>Cash flows from financing activities</b>									
Dividends paid to non-controlling interest	(0.6)	-	(0.6)	(0.6)	-	(0.6)	(0.6)	-	(0.6)
Dividends paid	-	-	-	(100.0)	-	(100.0)	(568.8)	568.8	-
Return of capital	-	-	-	-	-	-	(381.2)	(381.2)	-
Repayment of interest-bearing liabilities - external	(301.0)	-	(301.0)	(292.7)	-	(292.7)	(0.1)	-	(0.1)
Repayment of interest-bearing liabilities - related entities	(0.2)	-	(0.2)	(0.4)	-	(0.4)	-	-	-
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(301.8)</b>	<b>-</b>	<b>(301.8)</b>	<b>(393.7)</b>	<b>-</b>	<b>(393.7)</b>	<b>(950.7)</b>	<b>950.0</b>	<b>(0.7)</b>
<b>Net (decrease)/increase in cash</b>	<b>(52.0)</b>	<b>(6.7)</b>	<b>(58.7)</b>	<b>(29.4)</b>	<b>6.4</b>	<b>(23.0)</b>	<b>99.3</b>	<b>4.3</b>	<b>103.6</b>
Cash and cash equivalents at the beginning of the financial year	293.8	(4.0)	289.8	241.8	(10.7)	231.1	212.4	(4.3)	208.1
<b>Cash and cash equivalents at the end of the financial year</b>	<b>241.8</b>	<b>(10.7)</b>	<b>231.1</b>	<b>212.4</b>	<b>(4.3)</b>	<b>208.1</b>	<b>311.7</b>	<b>-</b>	<b>311.7</b>

# Corporate directory

## Registered office

Yancoal Australia Ltd  
Level 26  
363 George Street  
Sydney NSW 2000

## Website

[www.yancoal.com.au](http://www.yancoal.com.au)

## Stock exchange listing

The Company's Shares are listed on ASX (code 'YAL')

## Auditor

ShineWing Australia  
Level 10  
530 Collins Street  
Melbourne VIC 3000

## Australian legal advisers

MinterEllison  
Governor Macquarie Tower  
Level 40  
1 Farrer Place  
Sydney NSW 2000

Herbert Smith Freehills  
ANZ Tower  
Level 34  
161 Castlereagh Street  
Sydney NSW 2000

## Investigating accountant

ShineWing Australia Corporate Finance Pty Ltd  
Level 10  
530 Collins Street  
Melbourne VIC 3000

## Tax advisor

KPMG Australia  
Level 38  
Tower 3, International Towers Sydney  
300 Barangaroo Avenue  
Sydney NSW 2000

## Registry

Computershare Investor Services Pty Limited  
Level 4  
60 Carrington Street  
Sydney NSW 2000  
Tel (within Australia): 1300 855 080  
Tel (outside Australia): +61 3 9415 4000

## Offer Information Line

Australia 1300 059 020  
International +61 3 9415 4292

Open 9.00am to 5.00pm (Sydney time) Monday to Friday during the Entitlement Offer period.