

YAL

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Dear Shareholder

Pro rata renounceable entitlement offer to raise up to approximately US\$2.35 billion

On 1 August 2017, Yancoal Australia Limited ACN 111 859 119 (**Yancoal** or **Company**) (ASX: YAL) announced a 23.6 for 1 pro rata renounceable entitlement offer of approximately 23,464,929,152 new fully paid ordinary shares in Yancoal (**New Shares**) to seek to raise up to approximately US\$2.35 billion (**Entitlement Offer**) and an institutional placement of approximately 1,500,000,000 new fully paid ordinary shares (**Placement Shares**) to raise up to US\$150 million (**Placement**).

The record date for the Entitlement Offer is 7.00pm (Sydney, Australia time) on Monday, 7 August 2017 (**Record Date**). The Entitlement Offer is open to **Eligible Shareholders**, being persons who:

- are registered as a holder of fully paid ordinary shares in Yancoal (**Shares**) on 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, are permitted to participate in the Entitlement Offer having regard to the 'Selling Restrictions' contained in Section 8.6 of the entitlement offer booklet prepared by the Company in connection with the Entitlement Offer (a copy of which was released to ASX on 1 August 2017) (**Offer Booklet**);
- are not in the United States and are not acting for the account or benefit of persons 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 those holders of Shares who have an address in Australia or New Zealand on the Yancoal share register, are 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.

We are sending you this letter because, according to our records, you are an Eligible Shareholder.

Details of the Entitlement Offer are set out in the Offer Booklet which was released on the Australian Securities Exchange (**ASX**) on 1 August 2017. A copy of the Offer Booklet is available to Eligible Shareholders from the Company's website at www.yancoal.com.au or by calling the Company's share registry on 1300 059 020 (from within Australia) or +61 3 9415 4292 (from outside of Australia) from 9.00am to 5.00pm Monday to Friday during the Entitlement Offer offer period. Eligible Shareholders will be mailed an Offer Booklet together with an Entitlement and Acceptance Form on 10 August 2017.

Key information regarding the Entitlement Offer is as follows:

New Shares issued under the Entitlement Offer will be offered at US\$0.10 per New Share (**Offer Price**), which represents a discount of approximately 67.9% to the closing price of the Company's Shares on

ASX on 31 July 2017 (the last day of trading before Yancoal announced the Entitlement Offer) and a 4.6% discount to the theoretical ex-rights price¹.

Eligible Shareholders who take up their entitlement in full under the Entitlement Offer may also apply for additional New Shares at the Offer Price in excess of their entitlement (**Additional New Shares**). Such Eligible Shareholders are guaranteed to receive Additional New Shares applied for up to their Guaranteed Allocation². Additional New Shares above a relevant Eligible Shareholder's Guaranteed Allocation will only be allocated to an Eligible Shareholder if the bookbuild to be undertaken in connection with the Entitlement Offer (**Entitlement Offer Bookbuild**) does not clear above the Offer Price (and if available). 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 to the Entitlement Offer (although the Company, in consultation with the joint lead managers to the Entitlement Offer, 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 in Yancoal at the Record Date).

The Entitlement Offer is managed by Morgan Stanley Australia Securities Limited, J.P. Morgan Australia Limited and China International Capital Corporation Hong Kong Securities Limited³ (together, the **Joint Lead Managers**). The Joint Lead Managers will be paid certain fees in connection with their role as joint lead managers to the Entitlement Offer. Details of these fees are set out in section 7.3 of the Offer Booklet. The Joint Lead Managers are not underwriting the Entitlement Offer.

The Entitlement Offer is underwritten or committed up to a value of US\$2.3 billion by Shandong Lucion Investment Holdings Group Co., Ltd, Glencore Coal Pty Ltd and International High Grade Fund B, L.P.⁴, (together, the **Underwriters**), severally and in their respective proportions. No fees or commissions are payable to the Underwriters.

Yancoal's largest shareholder, Yanzhou Coal Mining Co., Ltd, has shown strong support by pre-committing to subscribe for approximately US\$1 billion of its entitlement under the Entitlement Offer. Yanzhou has also committed to convert into Shares as many of its subordinated capital notes (**SCN**) as it is able to convert, having regard to certain restrictions, and this is expected to result in conversion of all of Yanzhou's SCNs (**SCN Conversion**).

Following the completion of:

- (a) the Entitlement Offer (assuming the Entitlement Offer is fully subscribed), Yancoal will have issued an additional 23,464,929,152 New Shares;
- (b) the Placement, Yancoal will have issued an additional 1,500,000,000 Placement Shares; and
- (c) the SCN Conversion, Yancoal will have issued an additional 18,000,031,000 Shares to Yanzhou.

and will have approximately 43,959,236,811 million Shares in total on issue at that time.

Use of proceeds

The net proceeds raised from the Entitlement Offer and Placement will be used to provide funding for the consideration payable by the Company in connection with its acquisition of 100% of the issued share capital of Coal & Allied Industries Limited from wholly-owned subsidiaries of Rio Tinto Limited (**Acquisition**) and to pay the costs associated with the Acquisition, the Entitlement Offer and the Placement. Further details of the proposed use of proceeds are set out in the Offer Booklet.

Actions required by Eligible Shareholders

Shareholders whose registered address is outside Australia or New Zealand (or who are not institutional shareholders in certain permitted jurisdictions), or who are otherwise ineligible to participate under the

¹ Based on USD:AUD exchange rate of 0.80..

² 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 in the Company (after issue of all Shares under the Entitlement Offer and the Placement) as it held at the Record Date.

³ To the extent that China International Capital Corporation Hong Kong Securities Limited (**CICC**) 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.

⁴ or such other entity as determined by China Cinda Asset Management Co., Ltd, being in all cases being entities associated with China Cinda Asset Management Co., Ltd.

terms of the Entitlement Offer, will not be eligible to participate in the Entitlement Offer and will have their entitlements sold in the Entitlement Offer Bookbuild.

Eligible Shareholders, may do any one of the following:

- take up all or part of their entitlement (ie acquire 23.6 New Shares at the Offer Price for every 1 Share held as at the Record Date for up to the number of entitlements held) and renounce the balance;
- take up all of their entitlement and apply for Additional New Shares in excess of their entitlement;
- sell all or part of their entitlement:
 - on ASX; or
 - through the Entitlement Offer Bookbuild at the Offer Price; or
- do nothing, in which case an Eligible Shareholder will be deemed to have renounced their entitlement (and those renounced entitlements will be transferred and potentially sold in the Entitlement Offer Bookbuild at the Offer Price on an Eligible Shareholder's behalf).

As the Entitlement Offer is renounceable, Eligible Shareholders may sell all or part of their entitlement on ASX at the prevailing market price for entitlements.

The entitlements:

- of Eligible Shareholders (or acquirers of entitlements on ASX) who do not take up some or all of their entitlements; or
- which would otherwise have been available to ineligible shareholders and have not been sold on ASX by the nominee and then taken up by acquirers,

will be offered for subscription to certain institutional investors on behalf of renouncing shareholders and relevant ineligible shareholders through the Entitlement Offer Bookbuild and any proceeds in excess of the Offer Price that may be achieved under the Entitlement Offer Bookbuild (**Entitlement Offer Premium**) will be remitted to those renouncing shareholders and relevant 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 relevant 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 relevant ineligible shareholders in Australian dollars. If applicable, you will be paid by cheque sent by ordinary post to your address as recorded by the Company's share 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.

Eligible Shareholders who wish to sell their entitlements in full on ASX must instruct their broker and provide details as requested from their Entitlement and Acceptance Form. All ASX sales of entitlements must be made by close of the entitlement trading period (18 August 2017).

Eligible Shareholders who wish to sell part of their entitlements through a broker and accept for the balance must:

- in respect of the part of their entitlements to be sold on ASX, instruct their broker and provide details as requested from their Entitlement and Acceptance Form; and
- in respect of the part of their entitlements to be accepted, complete and return their Entitlement and Acceptance Form with the requisite application monies⁵ or pay the requisite application monies by BPAY® (if paying in Australian dollars) by following the instructions set out in their Entitlement and Acceptance Form.

All sales on ASX of Eligible Shareholder entitlements must be effected by close of the entitlement trading period (18 August 2017).

Eligible Shareholders can pay for New Shares or Additional New Shares in A\$ or US\$. If an Eligible Shareholder applies in A\$ the application monies they submit will be converted to US\$ at the spot rate prevailing on the Entitlement Offer closing date (less their pro rata share of the costs incurred by the Company for all such conversions, the **US\$ Equivalent Amount**). The spot rate exchange of A\$ to US\$ was at 7.00pm on 31 July 2017 was 0.80. Accordingly, if an Eligible Shareholder applies for New Shares or Additional New Shares in A\$, they will be taken to have applied for that number of New Shares and/or Additional New Shares equal to their 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 such number of Additional New Shares as is equal to the excess divided by the Offer Price.

Other information

Offers of New Shares will be made under the Offer Booklet. Eligible shareholders should carefully consider the Offer Booklet before deciding to apply for New Shares under the Entitlement Offer. Eligible shareholders who wish to acquire New Shares will need to complete the application form in or accompanying the Offer Booklet. A copy of the Offer Booklet is available to Eligible Shareholders from the Company's website at www.yancoal.com.au or by calling the Company's share registry on 1300 059 020 (from within Australia) or +61 3 9415 4292 (from outside of Australia) from 9.00am to 5.00pm during the Entitlement Offer offer period.

Key dates

Other key dates for shareholders are as follows:

Event	Date
Announcement of Entitlement Offer	1 August 2017
Shares quoted ex-entitlement on ASX (Entitlement trading on ASX begins and deferred settlement trading commences)	4 August 2017
Record Date for the Entitlement Offer	7.00pm (Sydney, Australia time) on Monday, 7 August 2017
Entitlement Offer opens	9.00am (Sydney, Australia time) on Thursday, 10 August 2017
Mailing of personalised Entitlement and Acceptance Form and the Offer Booklet to Eligible Shareholders completed	10 August 2017
Entitlement trading on ASX ends	18 August 2017
Entitlement Offer closes ⁶	5.00pm (Sydney, Australia time) on Friday, 25 August 2017
Entitlement Offer Bookbuild (if required)	25 August 2017
Settlement of New Shares and Additional New Shares issued under the	30 August 2017

⁵ Eligible Shareholders who are making payment by cheque, bank draft or money order must ensure that their completed personalised Entitlement and Acceptance Form and application monies are received by the Registry before 5.00pm (Sydney time) on Tuesday, 22 August 2017.

⁶ Eligible Shareholders who are making payment by cheque, bank draft or money order must ensure that their completed personalised Entitlement and Acceptance Form and application monies are received by the Registry before 5.00pm (Sydney time) on Tuesday, 22 August 2017.

Event	Date
Entitlement Offer	
Issue of New Shares and Additional New Shares under the Entitlement Offer	31 August 2017
Despatch of holding statements	1 September 2017
Normal trading of New Shares and Additional New Shares issued under the Entitlement Offer expected to commence on ASX	1 September 2017

Applications for New Shares under the Entitlement Offer may only be made on the Entitlement and Acceptance Form which accompanies the Offer Booklet, via BPAY® (if paying in Australian dollars) or, for Eligible Shareholders that are institutional or professional investors, as instructed by the Company or the Joint Lead Managers. Eligible Shareholders who wish to participate in the Entitlement Offer should read the Offer Booklet carefully. For further information on the Entitlement Offer you should contact your professional advisor or call Yancoal's share registry on 1300 059 020 (from within Australia) or +61 3 9415 4292 (from outside of Australia) from 9.00am to 5.00pm (Sydney, Australia time), Monday to Friday during the Entitlement Offer offer period.

On behalf of Yancoal, I invite you to consider this investment opportunity and thank you for your ongoing support of Yancoal.

Yours sincerely



Baocai Zhang
Director
Yancoal Australia Limited