

10 November 2014

ASX Release:

YAL announces US\$2.3 billion Subordinated Capital Notes Offer

Highlights

- Pro rata, renounceable rights offer of 2.32112 Subordinated Capital Notes for every 100 Yancoal Australia Limited (**YAL**) ordinary shares to raise up to approximately US\$2.3 billion.
- Offer a key part of a package of balance sheet strengthening and funding initiatives overseen and assessed by an Independent Board Committee¹ (**IBC**) to secure future funding for operations and growth opportunities.
- Subordinated Capital Notes to be treated as equity, improving YAL's capital structure and gearing ratio.
- Yanzhou Coal Mining Company Limited (**Yanzhou**) committed to subscribe for full pro rata entitlement (~US\$1.8 billion)².
- US\$1.8 billion of proceeds to be used to repay existing senior debt.
- Any remaining proceeds to partly fund YAL's existing coal operations and future growth.
- Yanzhou to provide up to A\$1.4 billion in additional financial support, plus additional financial support to fund distributions on the Subordinated Capital Notes over a five year period post issuance of the Subordinated Capital Notes, conditional upon Offer proceeding.
- Bank of China and China Construction Bank to provide an extension to the repayment of their US\$2.6 billion syndicated facility for 3 years, conditional upon the Offer proceeding.

Commenting, Reinhold Schmidt, YAL Chief Executive Officer said:

"Yancoal continues to take the necessary steps to reduce its gearing, improve operational efficiencies and deliver significant cost savings to weather the challenges of an increasingly competitive marketplace.

The Offer of Subordinated Capital Notes to raise up to approximately US\$2.3 billion will strengthen our balance sheet, and may secure funding to pursue future growth opportunities.

In a depressed commodities marketplace facing continued uncertainty for the near-term, Yancoal's existing level of debt is a significant constraint on our future expansion and operational improvement strategies.

As such, Yancoal will apply US\$1.8 billion of the Offer proceeds to repay existing senior loans from our major shareholder Yanzhou and improve Yancoal's capital structure and gearing ratio.

Any remaining proceeds will be used to partly fund Yancoal's existing coal operations and further growth projects, including commencement of Moolarben Stage 2, pending final approvals.

¹ The Independent Board Committee comprised Greg Fletcher, Dr Geoff Raby, Vince O'Rourke and Huaqiao Zhang, none of whom are directors or officers of Yanzhou or Noble Group.

² Yanzhou's subscription is subject to receipt of necessary regulatory approvals and Yanzhou shareholder approval. Yanzhou's majority shareholder, Yankuang Group Co., Ltd., has indicated that it will vote in favour of the necessary shareholder resolutions.

Yanzhou's support for the Offer and associated additional funding commitment, demonstrate its continued long term investment in Australia, and provides greater certainty for our more than 2000 employees and the communities in which we operate.

The issuing of Subordinated Capital Notes is one part of a broader package of balance sheet strengthening and funding initiatives overseen by an IBC on Yancoal's behalf. The IBC has assessed the benefits of the Offer and intended use of proceeds to ensure that the transaction is in the best interests of Yancoal. It has made this assessment on an 'arm's length' basis from major shareholders Yanzhou and Noble Group.

As we continue to operate to the highest safety, environmental and production standards, I believe this Offer will provide Yancoal with a stronger balance sheet, from which we can build a sustainable future of beneficial returns for our shareholders."

Subordinated Capital Notes

Yancoal Australia Limited's (YAL) Independent Board Committee (IBC) has approved a pro rata, renounceable rights offer of 2.32112 Subordinated Capital Notes (SCNs) for every 100 YAL ordinary shares to YAL shareholders to raise up to approximately US\$2.3 billion (Offer).

Key features³ of the SCNs are as follows:

- the SCNs are perpetual, subordinated, convertible, unsecured capital notes of face value US\$100 per note, issued by YAL or a wholly owned subsidiary of YAL;
- the SCNs entitle holders to receive fixed rate distribution payments, payable semi-annually in arrears unless deferred;
- the distribution rate will initially be set at 7.00% per annum, the rate is resettable to the 5 year USD mid-swap rate plus the initial margin⁴ per annum every 5 years for perpetuity and is subject to a further 2.50% per annum step up in year 10 and an incremental 5.00% per annum step up if a change of control event occurs. The first distribution payment date is expected to occur in June 2015;
- holders of the SCNs will, subject to YAL not redeeming the SCNs, be able to convert the SCNs into YAL ordinary shares during a 30 year conversion period at a fixed conversion price of US\$0.10 per share⁵; and
- the SCNs will be treated as equity for YAL accounting purposes.

Entitlements to subscribe for SCNs will be renounceable and it is expected that entitlements will be tradeable on ASX.

Yanzhou Coal Mining Company Limited (Yanzhou) has agreed to support the Offer and has committed to subscribe for its full pro rata entitlement under the Offer (~US\$1.8 billion)⁶. However, Yanzhou will not subscribe for any shortfall, which will be offered first to other YAL shareholders who wish to acquire additional SCNs, and then if relevant to new investors at the discretion of the YAL board⁷.

YAL intends to apply US\$1.8 billion of the Offer proceeds to repay existing senior debt owing to Yanzhou and use any remaining proceeds to part fund YAL's existing coal operations and future growth.

YAL has appointed Deutsche Bank AG, Sydney Branch to manage the Offer. The Offer will not be underwritten.

³ The complete terms of the SCNs will be set out in the prospectus for the Offer.

⁴ The initial margin is 7.00% per annum less the 5 year USD mid-swap rate as at the date of issue of the SCNs.

⁵ US\$0.10 per share represents a 49.8% discount to the 20 day VWAP of Yancoal ordinary shares to 5 November 2014 converted to US\$ using an A\$:US\$ exchange rate of 0.8594.

⁶ Yanzhou's subscription is subject to receipt of necessary regulatory approvals and Yanzhou shareholder approval. Yanzhou's majority shareholder, Yankuang Group Co., Ltd., has indicated that it will vote in favour of the necessary shareholder resolutions.

⁷ The right of shareholders to subscribe for any shortfall will be subject to the Manager having the right to place up to US\$75 million of SCNs to third party investors. If the Manager is unable to satisfy its placement entitlement from the shortfall (if any), YAL will place, pursuant to placement capacity under ASX Listing Rule 7.1, an additional US\$14.5 million of SCNs to third party investors procured by the Manager. If, following allocation of that placement, the Manager requires further SCNs to satisfy its placement entitlement, Yanzhou will renounce its entitlement to subscribe for SCNs to the extent required to meet any remaining shortfall in the Manager's placement entitlement.

Rationale for the Offer

The Offer is a key part of a package to strengthen YAL's balance sheet and improve its capacity to secure future funding for operations and growth opportunities. The SCNs will be treated as equity for balance sheet purposes and will therefore significantly reduce YAL's gearing to a more sustainable level.

Bank of China has confirmed⁸ the SCNs will be treated as equity for financial covenant calculation purposes under YAL's US\$2.6 billion syndicated facility and US\$140 million bilateral facility, which significantly improves YAL's covenant position.

In addition, conditional on the Offer proceeding:

- Bank of China and China Construction Bank have each committed⁹ to provide an extension to the repayment dates of their US\$2.6 billion syndicated facility for three years, with the first repayment under that facility now not falling due until June 2020;
- Yanzhou has committed to provide up to A\$1.4 billion in additional financial support to YAL by way of a 10 year committed funding facility, subordinated to Bank of China and the SCNs, which will be progressively drawn by YAL to fund YAL's cash flow requirements. Further, Yanzhou has agreed to provide an additional 10 year committed funding facility to YAL, subordinated to Bank of China and equal ranking to the SCNs, which will be progressively drawn by YAL as may be required for it to pay distributions on the SCNs for the first five years following issuance of the SCNs, to the extent that YAL has insufficient cashflow to fund those distributions;¹⁰ and
- Yanzhou has issued a further letter to Yancoal undertaking that, unless revoked by giving not less than 24 months' notice, for so long as Yanzhou owns at least 51% of the shares in Yancoal, Yanzhou will ensure that Yancoal continues to operate so that it remains solvent¹¹.

The Offer and YAL's intended use of proceeds has been assessed by a committee of independent directors of YAL. As part of its deliberations, the IBC considered a number of alternative transactions, and concluded the Offer is the best option available to YAL in the circumstances as well as being in the best interests of YAL as a whole.

Timetable

YAL expects that the Offer will close, and the SCNs be issued, before 31 December 2014. Further details of the timetable for the Offer will be provided in due course.

End

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⁸ The confirmations given by Bank of China are subject to a number of conditions, all of which YAL expects to be fulfilled on or before the issue date of SCNs under the Offer.

⁹ Extension of the Syndicated Facility is subject to a number of conditions, all of which YAL expects to be fulfilled on or before the issue date of SCNs under the Offer.

¹⁰ Commitments are subject to Yanzhou fulfilling all necessary approvals (including shareholder's approval and regulatory approvals) procedures and disclosure obligations and a number of other conditions that YAL expects to be fulfilled on or before the issue date.

¹¹ Any financial support provided by Yanzhou pursuant to this undertaking may, at Yanzhou's option, be in the form of debt or equity and will be subject to Yancoal having first received all necessary shareholder and other regulatory approvals (including, but not limited to, applicable approvals under the *Corporations Act 2001 (Cth)* or the ASX Listing Rules) which are required for that financial support to be provided. The undertaking is also conditional on the Offer proceeding and raising at least US\$1.8 billion; Yancoal repaying US\$1.8 billion in shareholder loans from the proceeds of the Offer; and Yanzhou receiving the necessary shareholder approval for entering into the undertaking.

The offering of securities in this release will only be open to investors that are in Australia or New Zealand (and institutional shareholders of Yancoal ("eligible institutional shareholders") in certain permitted jurisdictions where it is considered reasonable to make the offer having regard to the number of holders in the relevant jurisdiction, the number and value of securities they would be offered and the cost of complying with any relevant legal and regulatory requirements), and accordingly, this release does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the U.S. Securities Act of 1933) (except to eligible institutional shareholders in circumstances permitted under that Act).