

25 November 2014

Dear Shareholder

YANCOAL SCN LIMITED US\$2.3 BILLION SUBORDINATED CAPITAL NOTES OFFER

On Monday, 10 November 2014, Yancoal Australia Limited (**YAL**) announced a pro rata, renounceable rights offer of 2.32112 Subordinated Capital Notes (**Subordinated Capital Notes**) for every 100 YAL ordinary shares to raise up to approximately US\$2.3 billion (**Offer**).

Subordinated Capital Notes are subordinated, convertible, perpetual, unsecured notes, issued by Yancoal SCN Limited (ACN 602 841 556), a wholly owned subsidiary of YAL (**Issuer**) and guaranteed on a subordinated basis by YAL. Subordinated Capital Notes are convertible into YAL ordinary shares.

The Offer and use of proceeds

The Offer comprises a pro rata, renounceable rights offer of Subordinated Capital Notes to eligible shareholders (as described below, **Eligible Shareholders**). The Offer will be made under a Prospectus in accordance with the *Corporations Act 2001* (Cth) (**Corporations Act**) and lodged with the Australian Securities and Investments Commission on 24 November 2014 (**Prospectus**). The Entitlements to subscribe for Subordinated Capital Notes will be renounceable and it is expected that entitlements will be tradeable on the Australian Securities Exchange (**ASX**).

While the Offer is not underwritten, Yanzhou Coal Mining Company Limited (**Yanzhou**), as YAL's current major shareholder, has committed to take up its pro rata share of the Offer¹.

YAL will apply US\$1.8 billion of the Offer proceeds to repay senior debt owing to Yanzhou and use any remaining proceeds to part fund YAL's existing coal operations and further growth, in particular by way of development of major brownfield projects, including commencement of the low-cost Moolarben Stage 2 project, pending final approvals and land acquisition.

The Offer is a key part of a package of measures intended to strengthen YAL's balance sheet to alleviate covenant pressure under YAL's Bank of China Facilities and to improve its capacity to secure future funding for operations and growth opportunities as coal markets improve.

YAL needs to proactively take steps to strengthen its balance sheet which as of 30 June 2014 had senior debt outstanding of US\$2.839 billion under the Bank of China Facilities and US\$1.916 billion owing to Yanzhou. These debts rank pari passu with one another and both count towards covenant calculations. The issue of Subordinated Capital Notes, which will be treated as equity for balance sheet purposes, and repayment of US\$1.8 billion of the senior debt owing to Yanzhou, reduces YAL's gearing, addresses its financial covenant position with its senior lenders, including Bank of China, and establishes a more sustainable capital structure.

Details of the Entitlement Offer

If you are an Eligible Shareholder, you will be able to subscribe for 2.32112 Subordinated Capital Notes for every 100 existing YAL ordinary shares held on the record date of 7.00pm (Sydney time) on 28 November 2014 (**Record Date**) (rounded up to the nearest whole number of Subordinated Capital Notes if the result was not a whole number) (**Entitlement**). The issue price is US\$100 or A\$125 per Subordinated Capital Note (**Issue Price**). Fractional Entitlements will be rounded up to the nearest whole number of Subordinated Capital Notes.

¹ To address any possible concerns regarding potential control effects, Yanzhou has agreed that, while it will take up its full pro rata allocation, it will not apply for any Additional Subordinated Capital Notes.

Eligible Shareholders

“Eligible Shareholders” are those persons who are registered as a holder of existing YAL ordinary shares shown on YAL’s share register as at 7.00pm (Sydney time) on the Record Date and who:

1. have a registered address in Australia or New Zealand²;
2. subject to certain limited exceptions, are not in the United States and are not “U.S. persons” (as defined under Regulation S under the United States Securities Act of 1933, as amended) (**U.S. Persons**) or acting for the account or benefit of U.S. Persons; and
3. are otherwise eligible under all applicable securities laws to receive an offer under the Offer.

Prospectus

This letter is not a prospectus or any other form of offer document but rather an advance notice of some key terms and conditions of the Offer. Full details of the Offer are set out in the Prospectus, copies of which will be available on the YAL website www.yancoal.com.au. Following the exposure period, paper copies of the Prospectus and entitlement application forms (**Application Form**) can be obtained free of charge by calling the YAL Information Line on 1300 608 419 (within Australia) or +61 3 9938 4354 (outside Australia) from 9.00am to 5.00pm (Sydney time) Monday to Friday during the Offer period. Copies of the Prospectus and Application Forms will be despatched to Eligible Shareholders on 2 December 2014.

You should read the Prospectus in its entirety in order to make an informed decision on the prospects of the Issuer and YAL and the rights attaching to the Subordinated Capital Notes offered by the Prospectus before deciding to apply for Subordinated Capital Notes. If you do not understand the Prospectus you should consult your financial adviser or other professional adviser.

Action required by Eligible Shareholders

Your Entitlement may have value and it is important you determine whether to (in whole or in part) take up, transfer, sell or do nothing in respect of your Entitlement. If you do nothing you should ensure that you understand the tax consequences. Eligible Shareholders can also apply for additional Subordinated Capital Notes, if available.

Take up your Entitlement:

If you wish to take up all or part of your Entitlement, you will need to complete and return the Application Form with requisite application payments by no later than 5:00pm (Sydney time) on 17 December 2014. The Application Form sets out the number of Subordinated Capital Notes that you are entitled to subscribe for.

If you take up and pay for all or part of your Entitlement before the close of the Offer, it is expected that you will be issued Subordinated Capital Notes on 24 December 2014.

Take up your Entitlement and apply for additional Subordinated Capital Notes:

Any Entitlements not taken up by Eligible Shareholders may become available as additional Subordinated Capital Notes (**Additional Subordinated Capital Notes**). Eligible Shareholders may, in addition to their Entitlements, apply for Additional Subordinated Capital Notes regardless of the size of their present holding by completing the

² Shareholders who are institutional holders with a registered address in China, Hong Kong, Singapore, the United States, the United Kingdom or Norway are also eligible to apply subject to the foreign selling restrictions set out in the Prospectus.

accompanying Application Form in accordance with the instructions set out on that form³. In the event that there are insufficient Additional Subordinated Capital Notes to satisfy applications for them, Additional Subordinated Capital Notes will be allocated on an pro rata basis based on each applicant's Entitlement to Subordinated Capital Notes under the Offer.

The Issuer reserves the right to scale back any applications for Additional Subordinated Capital Notes. If a lesser number of Subordinated Capital Notes are allocated to an Eligible Shareholder, excess application payments will be refunded (without interest) as soon as practicable after all Additional Subordinated Capital Notes have been issued.

Sell your Entitlement:

There are a number of ways in which you can sell all or part of your Entitlement, each of which may result in a different value for those Entitlements sold:

1. If you wish to sell all or part of your Entitlements on ASX, you should instruct your stockbroker and provide details as requested from your Application Form. You may incur brokerage if you choose to sell your Entitlements on ASX. Entitlements trading on ASX starts at 10:00am (Sydney time) on 26 November 2014 and ceases at 4:00pm (Sydney time) on 10 December 2014. 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 Entitlements on ASX and, if you are able to sell, the price you may be able to achieve. If you sell your Entitlements in the Entitlements trading period, you may receive a higher or lower amount than a shareholder who sells their Entitlements at a different time during the Entitlements trading period.
2. If you wish to transfer all or part of your Entitlements other than on ASX, you must forward a completed renunciation and transfer form (**Renunciation and Transfer Form**) to the share registry in relation to the part of your Entitlements that you wish to transfer. If the transferee wishes to take up all or part of the Entitlements transferred to them, they must send their application payment together with the Application Form related to the Entitlements transferred to them to the share registry. You can obtain a Renunciation and Transfer Form through the YAL Information Line on 1300 608 419 (within Australia) or +61 3 9938 4354 (outside Australia) from 9.00am to 5.00pm (Sydney time) Monday to Friday during the Offer period or from your stockbroker. If the share registry receives both a completed Renunciation and Transfer Form and an application for Subordinated Capital Notes in respect of the same Entitlements, the transfer will take priority over the application. You may only transfer your Entitlements in this way to a purchaser whose address is in Australia or New Zealand, who is not in the United States and is not acting for the account or benefit of a person in the United States. You should inform any transferee of these restrictions.

Take up only a portion of your Entitlement:

If you wish to exercise only a portion of your Entitlements and allow the balance to be offered for sale into the shortfall bookbuild, complete the accompanying Application Form for the number of Subordinated Capital Notes you wish to subscribe for and follow the steps required in accordance with the instructions on that form. If you take no further action, the balance of your Entitlements will lapse, and the Subordinated Capital Notes representing those Entitlements may be sold to Eligible Shareholders who apply for Additional Subordinated Capital Notes or third party investors through the shortfall bookbuild. If you do not exercise all of your Entitlements, your proportional shareholding in YAL will be diluted on the conversion of Subordinated Capital Notes to YAL ordinary shares by Eligible Shareholders participating in the Offer.

³ This is subject to up to US\$75 million of Subordinated Capital Notes in any shortfall in shareholder applications being reserved for placement to third party investors via the shortfall bookbuild.

Do nothing:

If you do not take up your Entitlement, it will lapse at 5.00 pm (Sydney time) on 17 December 2014. The Subordinated Capital Notes representing your Entitlements may be sold to Eligible Shareholders who apply for Additional Subordinated Capital Notes or third party investors through the shortfall bookbuild.

Your proportional shareholding in YAL will be diluted on conversion of Subordinated Capital Notes to YAL ordinary shares if you do not take up your Entitlements under the Offer.

Key Dates for Eligible Shareholders

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| Lodgement of Prospectus with ASIC | 24 November 2014 |
| Entitlements trading begins | 26 November 2014 |
| Record Date to determine entitlements to Subordinated Capital Notes | 7.00pm, 28 November 2014 |
| Prospectus with personalised Application Form despatched | 2 December 2014 |
| Opening Date for the Offer | 2 December 2014 |
| Entitlements trading ends | 10 December 2014 |
| Closing Date for the Offer | 5:00pm, 17 December 2014 |
| Shortfall bookbuild | 18 December 2014 |
| Issue Date | 24 December 2014 |
| Subordinated Capital Notes expected to commence trading on ASX on deferred settlement basis | 29 December 2014 |
| Holding Statements despatched | 31 December 2014 |
| Subordinated Capital Notes expected to commence trading on ASX on normal settlement basis | 5 January 2015 |

The above timetable is indicative only and subject to change. All times are references to Sydney time.

YAL reserves the right to amend any of all of these dates and times without notice subject to the Corporations Act, the ASX Listing Rules and other applicable laws. In particular, YAL reserves the right to extend the closing date of the Offer, to accept late applications under the Offer (either generally or in particular cases) and to withdraw the Offer without prior notice. Any extension of the closing date will have a consequential effect on the issue date of Subordinated Capital Notes.

For further information on the Offer you should call the YAL Offer Information Line on 1300 608 419 (within Australia) or +61 3 9938 4354 (outside Australia) (Monday to Friday 9.00am – 5.00pm, Sydney time) during the Offer period.

Yours faithfully

Yancoal SCN Limited



Baocai Zhang
Chairman

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

Important information

This letter is issued by Yancoal SCN Limited (ACN 602 841 556). This letter is not a prospectus or offering document under Australian law or under any other law. It is for information purposes only and does not constitute an offer, invitation or recommendation to subscribe for, retain or purchase any securities in YAL in any jurisdiction. This letter does not constitute financial product advice and does not and will not form part of any contract for the acquisition of YAL ordinary shares.

The offering of securities in this release will only be open to investors that are in Australia or New Zealand (and institutional shareholders of YAL (“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 letter 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).

Certain statements made in this release are forward-looking statements. These forward-looking statements are not historical facts but rather are based on YAL’s current expectations, estimates and projections about the industry in which YAL operates, and beliefs and assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, some of which are beyond the control of YAL, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. YAL cautions shareholders and prospective investors not to place undue reliance on these forward-looking statements, which reflect the view of YAL only as of the date of this release. The forward-looking statements made in this release relate only to events as of the date on which the statements are made. YAL will not undertake any obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this release except as required by law or by any appropriate regulatory authority.

The provision of this document is not, and should not be considered as, financial product advice. The information in this document is general information only, and does not take into account your individual objectives, taxation position, financial situation or needs. You should read the Prospectus in its entirety in order to make an informed decision on the prospects of the Issuer and YAL and the rights attaching to the Subordinated Capital Notes offered by the Prospectus before deciding to apply for Subordinated Capital Notes. If you do not understand the Prospectus you should consult your financial adviser or other professional adviser.