

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.

This letter is to inform you about the Offer, and to explain why you will not be able to subscribe for Subordinated Capital Notes under the Offer. This letter is not an offer to issue Subordinated Capital Notes to you, nor an invitation for you to apply for Subordinated Capital Notes. **You are not required to do anything in response to this letter.**

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.

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.

Details of the Entitlement Offer

The Offer is being made to Eligible Shareholders on the basis of 2.32112 Subordinated Capital Notes for every 100 existing YAL ordinary shares held (**Entitlement**) on the record date of 7.00 pm (Sydney time) on 28 November 2014 (**Record Date**).

Eligibility Criteria

"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.

Shareholders who are not Eligible Shareholders are "**Ineligible Shareholders**".

The restrictions upon eligibility to participate in the Offer arise because of the legal and regulatory requirements in countries other than Australia or New Zealand and the potential costs to YAL of complying with these legal and regulatory requirements compared with the relatively small number of shareholders in those countries, the relatively small number of existing YAL ordinary shares they hold and the relatively low value of Subordinated Capital Notes to which they would otherwise be entitled. YAL has determined, pursuant to ASX Listing Rule 7.7.1(a) and section 9A(3)(a) of the Corporations Act, that it would be unreasonable to make or extend offers to shareholders in certain countries under the Offer.

Unfortunately, according to our records, you do not satisfy the eligibility criteria for an Eligible Shareholder stated above. Accordingly, in compliance with ASX Listing Rule 7.7.1(b) and section 9A(3)(b) of the Corporations Act, YAL wishes to advise you that it will not be extending the Offer to you and you will not be able to subscribe for Subordinated Capital Notes under the Offer. You will not be sent the documents relating to the Offer.

You are not required to do anything in response to this letter.

For further information on the Offer or if you believe that you are an Eligible Shareholder, you can call 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. If you have any further questions, you should contact your stockbroker, accountant or other professional adviser.

Yours faithfully

Yancoal SCN Limited



Baocai Zhang
Chairman

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.

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).

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.