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中国神华能源股份有限公司
CHINA SHENHUA ENERGY COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 01088)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

FINANCIAL HIGHLIGHTS

- Revenue of the Group in the first half of 2016 were RMB78,723 million, representing a decrease of RMB11,278 million or 12.5% over the same period of 2015.
- Profit for the period attributable to equity holders of the Company was RMB10,827 million, representing a decrease of RMB2,592 million or 19.3% over the same period of 2015.
- Earnings per share for the period was RMB0.544.
- EBITDA in the first half of 2016 was RMB34,399 million, representing a decrease of RMB1,145 million or 3.2% over the same period of 2015.

The Board of China Shenhua Energy Company Limited (the “Company”) is pleased to present the interim results of the Company and its subsidiaries (the “Group” or “China Shenhua”) for the six months ended 30 June 2016 and to report our performance for the period.

I. INTERIM FINANCIAL INFORMATION

Financial information extracted from the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”:

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

for the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
	(Unaudited)	(Unaudited)
		(Restated)
Revenue	78,723	90,001
Cost of sales	(52,188)	(60,815)
Gross profit	26,535	29,186
Selling expenses	(253)	(261)
General and administrative expenses	(4,310)	(4,269)
Other gains and losses	(152)	(436)
Other income	694	349
Other expenses	(266)	(199)
Interest income	174	408
Finance costs	(2,946)	(2,213)
Share of results of associates	35	129
Profit before income tax	19,511	22,694
Income tax expense	(4,701)	(4,681)
Profit for the period	<u>14,810</u>	<u>18,013</u>

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
	(Unaudited)	(Unaudited)
		(Restated)
Other comprehensive (expense) income for the period		
<i>Item that will not be reclassified to profit or loss:</i>		
Remeasurement of defined benefit obligations	(7)	(5)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences	140	82
Share of other comprehensive income of associates	15	–
	<u>148</u>	<u>77</u>
Other comprehensive income for the period, net of income tax		
	<u>148</u>	<u>77</u>
Total comprehensive income for the period	<u><u>14,958</u></u>	<u><u>18,090</u></u>
Profit for the period attributable to:		
Equity holders of the Company	10,827	13,419
Non-controlling interests	3,983	4,594
	<u>14,810</u>	<u>18,013</u>
Total comprehensive income for the period attributable to:		
Equity holders of the Company	10,966	13,498
Non-controlling interests	3,992	4,592
	<u>14,958</u>	<u>18,090</u>
Earnings per share (RMB)		
– Basic	<u><u>0.544</u></u>	<u><u>0.675</u></u>

Condensed Consolidated Statement of Financial Position

at 30 June 2016

	30 June 2016 <i>RMB million</i> (Unaudited)	31 December 2015 <i>RMB million</i> (Audited)
Non-current assets		
Property, plant and equipment	329,757	339,326
Construction in progress	38,950	33,610
Exploration and evaluation assets	2,293	2,176
Intangible assets	2,850	2,964
Interest in associates	5,194	5,113
Available-for-sale investments	1,795	1,795
Other non-current assets	34,760	34,562
Lease prepayments	16,410	16,535
Deferred tax assets	2,565	2,674
	<hr/>	<hr/>
Total non-current assets	434,574	438,755
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Current assets		
Inventories	14,192	12,816
Accounts and bills receivable	26,570	41,019
Prepaid expenses and other current assets	16,197	19,351
Restricted bank deposits	5,324	4,611
Time deposits with original maturity over three months	2,401	916
Cash and cash equivalents	66,189	42,323
	<hr/>	<hr/>
Total current assets	130,873	121,036
	<hr/>	<hr/>
Current liabilities		
Borrowings	12,550	12,812
Short-term debenture	–	4,998
Accounts and bills payable	32,095	33,990
Accrued expenses and other payables	45,329	47,519
Current portion of long-term liabilities	268	203
Income tax payable	1,803	1,965
	<hr/>	<hr/>
Total current liabilities	92,045	101,487
	<hr/>	<hr/>
Net current assets	38,828	19,549
	<hr/>	<hr/>
Total assets less current liabilities	473,402	458,304
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	30 June 2016	31 December 2015
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Borrowings	60,842	54,179
Medium-term notes	24,965	24,955
Bonds	9,864	9,651
Long-term liabilities	2,355	2,523
Accrued reclamation obligations	2,265	2,197
Deferred tax liabilities	817	878
	<hr/>	<hr/>
Total non-current liabilities	101,108	94,383
	<hr/>	<hr/>
Net assets	372,294	363,921
	<hr/> <hr/>	<hr/> <hr/>
Equity		
Share capital	19,890	19,890
Reserves	282,779	278,178
	<hr/>	<hr/>
Equity attributable to equity holders of the Company	302,669	298,068
Non-controlling interests	69,625	65,853
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Total equity	372,294	363,921
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Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2016

	Attributable to equity holders of the Company							Total	Non-controlling interests	Total equity	
	Share capital	Share premium	Capital reserve	Exchange reserve	Statutory reserves	Other reserves	Retained earnings				Total
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>				<i>RMB million</i>
At 1 January 2016 (audited)	19,890	85,001	3,612	(176)	18,003	(14,308)	186,046	298,068	65,853	363,921	
Profit for the period	-	-	-	-	-	-	10,827	10,827	3,983	14,810	
Other comprehensive income for the period	-	-	-	131	-	8	-	139	9	148	
Total comprehensive income for the period	-	-	-	131	-	8	10,827	10,966	3,992	14,958	
Dividend declared	-	-	-	-	-	-	(6,365)	(6,365)	-	(6,365)	
Appropriation of maintenance and production funds	-	-	-	-	1,844	-	(1,844)	-	-	-	
Utilisation of maintenance and production funds	-	-	-	-	(551)	-	551	-	-	-	
Contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	408	408	
Distributions to non-controlling shareholders	-	-	-	-	-	-	-	-	(628)	(628)	
At 30 June 2016 (unaudited)	<u>19,890</u>	<u>85,001</u>	<u>3,612</u>	<u>(45)</u>	<u>19,296</u>	<u>(14,300)</u>	<u>189,215</u>	<u>302,669</u>	<u>69,625</u>	<u>372,294</u>	

	Attributable to equity holders of the Company							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Statutory reserves	Other reserves	Retained earnings			
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million			
At 1 January 2015 as originally reported	19,890	85,001	3,612	(353)	16,071	(11,237)	184,260	297,244	64,355	361,599
Adjustment for acquisitions of subsidiaries from Shenhua Group Corporation Limited ("Shenhua Group") in 2015	-	-	-	-	-	2,667	787	3,454	517	3,971
At 1 January 2015 (audited, as restated)	<u>19,890</u>	<u>85,001</u>	<u>3,612</u>	<u>(353)</u>	<u>16,071</u>	<u>(8,570)</u>	<u>185,047</u>	<u>300,698</u>	<u>64,872</u>	<u>365,570</u>
Profit for the period (restated)	-	-	-	-	-	-	13,419	13,419	4,594	18,013
Other comprehensive income (expense) for the period (restated)	-	-	-	84	-	(5)	-	79	(2)	77
Total comprehensive income (expense) for the period (restated)	-	-	-	84	-	(5)	13,419	13,498	4,592	18,090
Dividend declared	-	-	-	-	-	-	(14,718)	(14,718)	-	(14,718)
Appropriation of maintenance and production funds	-	-	-	-	2,733	-	(2,733)	-	-	-
Utilisation of maintenance and production funds	-	-	-	-	(1,359)	-	1,359	-	-	-
Contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	296	296
Distributions to non-controlling shareholders	-	-	-	-	-	-	-	-	(2,041)	(2,041)
Others	-	-	-	-	-	-	-	-	(4)	(4)
At 30 June 2015 (unaudited, as restated)	<u>19,890</u>	<u>85,001</u>	<u>3,612</u>	<u>(269)</u>	<u>17,445</u>	<u>(8,575)</u>	<u>182,374</u>	<u>299,478</u>	<u>67,715</u>	<u>367,193</u>

Note:

In 2005, the Company issued 3,089,620,455 H shares with a par value of RMB1.00 each, at a price of HKD7.50 per H share by way of a global initial public offering. In addition, 308,962,045 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua Group were converted into H shares. A total of 3,398,582,500 H shares are listed on The Stock Exchange of Hong Kong Limited.

In 2007, the Company issued 1,800,000,000 A shares with a par value of RMB1.00 each, at a price of RMB36.99 per A share in the PRC. The A shares are listed on the Shanghai Stock Exchange.

Condensed Consolidated Statement of Cash Flows
for the six months ended 30 June 2016

	<u>Six months ended 30 June</u>	
	2016	2015
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited) (Restated)
OPERATING ACTIVITIES		
Profit before income tax	19,511	22,694
Adjustments for:		
Depreciation and amortisation	12,151	11,174
Other gains and losses	152	436
Interest income	(174)	(408)
Share of results of associates	(35)	(129)
Interest expense	2,349	1,993
Fair value changes on financial instruments	(11)	1
Exchange loss, net	608	219
Other income	(1)	(9)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	34,550	35,971
Increase in inventories	(1,376)	(1,955)
Decrease (increase) in accounts and bills receivable	14,449	(4,633)
Decrease in prepaid expenses and other receivables	2,369	1,733
Increase (decrease) in accounts and bills payable	46	(4,446)
(Decrease) increase in accrued expenses and other payables	(7,016)	11,563
	<hr/>	<hr/>
Cash generated from operations	43,022	38,233
Income tax paid	(4,815)	(6,044)
	<hr/>	<hr/>
NET CASH GENERATED FROM OPERATING ACTIVITIES	38,207	32,189
	<hr/>	<hr/>

	Six months ended 30 June	
	2016	2015
	RMB million	<i>RMB million</i>
	(Unaudited)	(Unaudited)
		(Restated)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, intangible assets, exploration and evaluation assets, additions to the construction in progress and other non-current assets	(8,941)	(10,823)
Increase in lease prepayments	(34)	(2)
Proceeds from disposal of property, plant and equipment, lease prepayments and other non-current assets	244	23
Proceeds from disposal of an associate	–	2
Investments in associates	(38)	(28)
Dividend received from associates	10	234
Interest received	146	191
Investment income from debt securities	17	128
Proceeds from disposal of debt securities	–	400
Increase in restricted bank deposits	(713)	(2,303)
Increase in time deposits with original maturity over three months	(1,872)	(154)
Maturity of time deposits with original maturity over three months	387	576
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NET CASH USED IN INVESTING ACTIVITIES	(10,794)	(11,756)
	<hr/>	<hr/>

	Six months ended 30 June	
	2016	2015
	RMB million	<i>RMB million</i>
	(Unaudited)	(Unaudited)
		(Restated)
FINANCING ACTIVITIES		
Interest paid	(1,967)	(2,300)
Proceeds from borrowings	15,501	11,540
Repayments of borrowings	(9,577)	(14,964)
Net proceeds from short-term debentures and medium-term notes	–	14,985
Repayments of short-term debentures and medium-term notes	(5,000)	(10,000)
Net proceeds from bonds	–	9,049
Contributions from non-controlling shareholders	240	296
Distributions to non-controlling shareholders	(1,843)	(1,190)
Dividend paid to equity holders of the Company	(628)	(12,203)
Acquisition of non-controlling interests	–	(4)
Cash paid for acquisition of subsidiaries under common control	(309)	–
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(3,583)	(4,791)
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,830	15,642
Cash and cash equivalents, at the beginning of the period	42,323	35,961
Effect of foreign exchange rate changes	36	(6)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	66,189	51,597
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2016

1. Principal accounting policies

The condensed consolidated financial statements have been prepared on historical cost basis except for certain financial instruments which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2012–2014 Cycle</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. Revenue

	Six months ended 30 June	
	2016	2015
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
		(Restated)
Coal revenue	39,816	42,901
Power revenue	32,418	35,764
Transportation revenue	2,020	1,936
Coal chemical revenue	1,707	2,710
	75,961	83,311
Other revenue	2,762	6,690
	78,723	90,001

3. Cost of sales

	Six months ended 30 June	
	2016	2015
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
		(Restated)
Coal purchased	6,925	9,673
Materials, fuel and power	8,137	8,155
Personnel expenses	5,652	5,490
Depreciation and amortisation	10,593	9,684
Repairs and maintenance	4,191	4,476
Transportation charges	4,687	6,043
Taxes and surcharges	2,465	3,097
Other operating costs	9,538	14,197
	52,188	60,815

4. Income Tax Expense

	Six months ended 30 June	
	2016	2015
	<i>RMB million</i>	<i>RMB million</i>
	(Unaudited)	(Unaudited)
		(Restated)
Current tax, mainly PRC enterprise income tax	4,624	5,210
Under (over) provision in respect of prior periods	29	(51)
Deferred tax	48	(478)
	4,701	4,681

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% (six months ended 30 June 2015: 25%) except the Company’s overseas subsidiaries and branches as well as subsidiaries operating in the western developing region of the PRC which are entitled to a preferential tax rate of 15% from 2011 to 2020.

The applicable tax rates of the Company’s overseas subsidiaries are as follows:

	Six months ended 30 June	
	2016	2015
	%	%
Australia	30.0	30.0
Indonesia	25.0	25.0
Russia	20.0	20.0
Hong Kong	16.5	16.5

During the six months ended 30 June 2016 and 2015, there was no significant assessable profit and provision for profit tax for the overseas subsidiaries.

5. Dividends

A final dividend of RMB0.32 per share totaling RMB6,365 million in respect of the year ended 31 December 2015 (six months ended 30 June 2015: RMB0.74 per share totaling RMB14,718 million in respect of the year ended 31 December 2014) was approved at the annual general meeting held on 17 June 2016 and was all paid by July 2016.

The directors of the Company have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2015: Nil).

6. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2016 was based on the profit attributable to ordinary equity holders of the Company of RMB10,827 million (six months ended 30 June 2015: RMB13,419 million, as restated) and the number of shares in issue during the six months ended 30 June 2016 of 19,890 million (six months ended 30 June 2015: 19,890 million) shares.

No diluted earnings per share is presented as there were no potential ordinary shares in existence during both periods.

7. Review of condensed consolidated financial statements

The condensed consolidated financial statements for the six months ended 30 June 2016 have been reviewed with no disagreement by the Audit Committee of the Company.

II. CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors, I am delighted to present the 2016 interim report of China Shenhua and to report to all shareholders on the Company's performance during the period.

During the first half of 2016, the PRC government endeavoured to achieve stable economic growth and realise structural adjustments, resulting in an overall stable national economy with moderate growth. Along with the gradual implementation of reform policies for the supply side in the coal industry and, in particular, the implementation of the system of 276 working days per annum for domestic coal mines since 1 May 2016, the supply volume of coal was under control, and the supply and demand in the coal market were balanced in the doldrums. The demand for electricity of the whole society recovered, but the utilisation hours of coal-fired generators continued to decline as a result of the increase in the power generation capacity of non-fossil fuels such as hydropower and nuclear power as well as the growth in the installed capacity of coal-fired generators.

With the coherent efforts of all the staff in China Shenhua, better operating results have been achieved by China Shenhua under enormous market pressure by the implementation of the clean energy development strategy, sparing no efforts in structural optimisation and market expansion as well as improving quality and efficiency. During the first half of 2016, the Group realised a profit of RMB14,810 million for the period. Profit attributable to equity holders of the Company for this period and basic earnings per share amounted to RMB10,827 million and RMB0.544 respectively.

As at 30 June 2016, the total market capitalisation of China Shenhua reached US\$41.2 billion, ranking the first among all listed coal companies worldwide and the fifth among all listed integrated mining companies globally. At the beginning of 2016, international credit rating agencies, including Moody's and Fitch, consecutively announced that they would maintain the sovereign rating of the international credit rating of China Shenhua.

THE FIRST HALF OF 2016: ADJUSTING STRUCTURE, OPTIMISING OPERATION AND ACCELERATING THE IMPLEMENTATION OF CLEAN ENERGY DEVELOPMENT STRATEGY

Promoting business structure optimization continuously

The Company proactively responded to the changes in the coal and electricity markets, constantly adjusted the structure of capital expenditure, and continuously promoted the business structure optimisation through the implementation of the clean energy development strategy. Pursuant to the International Financial Reporting Standards, before elimination on consolidation, the Company realised a profit from operations of RMB8,167 million from the power business and RMB8,898 million from the transportation business for the first half of the year, together accounting for 78%, representing a year-on-year increase of 11 percentage points. The stable profit from operations of the power generation and transportation businesses has sharpened the overall competitive edge of the Company.

Responding to the market proactively and enhancing the marketing of coal-fired power generation

As the relationship between the demand and supply of coal has become more favourable to the supply side since the second quarter of the year, the Company has made timely adjustments to its price and strategies of coal sales. It has endeavoured to raise the sales volume of the seaborne coal with the highest unit gross profit margin and strived to increase market share of the regions including “the movement towards the shipping route from the northern sea to the Yangtze River” and “the expansion into the southern market along its three railway lines” and strengthened the coal procurement. Meanwhile, purchase costs of external coal have been controlled in an effective fashion as a result, in turn maximising the sales efficiency. In the first half of the year, the sales volume of seaborne coal reached 112.3 million tonnes, representing a year-on-year increase of 14.7%.

Under the general surplus of power supply throughout the country, the Company actively participated in the system reform of power and strengthened its marketing while proactively developing internal and external direct power supply business and maintaining its market share. The average utilisation hours of coal-fired generators reached 2,060 hours, surpassing the national average utilisation hours of coal-fired equipment by 29 hours.

Achieving integrated and efficient synergy

On the basis of implementing the new working day system in the coal business, the Company enhanced the dynamic analysis of coal price and cost efficiency, and constantly optimised the production structure while reasonably arranging the production volume of coal mines with good marginal profits.

The Company endeavoured to enhance the management over the integration between the upstream and downstream industry in its transportation business and improved the efficiency of transportation in order to ensure the efficient synergy of the integration.

The Company enhanced the latent hazard treatment and technological supervision of the equipment in its power business, which continuously raised the level of the reliability of the generators. It strived for a higher amount of power generation and a larger market share in the power generation industry, and achieved stable business volume of the power segment. In the first half of the year, gross power generation reached 111.01 billion kwh while the total power output dispatch reached 103.90 billion kwh.

For the coal chemical business, the Company continued to optimise the production plan, facilitate technological innovation and develop marketing channels in order to ensure the operational stability. In the first half of the year, sales volume of coal-to-olefins products reached 254.4 thousand tonnes.

Making preliminary progress in macroscopic logistics

Facing the market scenario of the increasingly fierce competition in the coal market and excess logistic capacity of railway transportation, by utilising the well-established transportation network comprising Bazhun Railway and Zhunchi Railway, the Company promoted the transition of its transportation system from railways designated for coal transportation towards the macroscopic logistics permeating Shenhua.

The Company fully exploited its advantages in key resources and took the initiative to expand the scale of transportation of non-coal materials and reverse transportation in order to improve the profitability of the transportation segment. In the first half of the year, the transportation services provided by the Company's railway and port segments to third parties generated revenue of 1,998 million, representing a year-on-year increase of 14.8%.

On the basis of delivering a sound performance in the transportation of its own coal, the Company established the long-term strategic cooperation with major customers with fully utilisation of excess transportation capacity. The Company launched more trains with the capacity of 10,000 tonnes, which expanded the capacity of transportation and significantly increased the transportation capacity of railways and the volume of seaborne coal at its own ports. In the first half of the year, the Company's own railways had a freight turnover of 119.8 billion tonne km, whilst the seaborne coal volume at the Company's own ports reached 99.3 million tonnes, representing a year-on-year increase of 21.6% and 33.3%, respectively.

Strengthening cost management and control and improving quality and enhancing efficiency comprehensively

Due to the strict implementation of a budget control system, adoption of a rolling budget, formulation of monthly indicators of cost and profit and greater efforts in the system of reward and penalty based on appraisal, the cost was under effective control. The unit production cost of self-produced coal in the first half of the year amounted to RMB104.4/tonne, representing a year-on-year decrease of 10.8%, whereas the unit cost of power output dispatch amounted to RMB218.1/mwh, representing a year-on year decrease of 5.9%.

The Company was committed to exercising effective management over accounts and notes receivable to ensure the security of capital turnover. It proactively promoted the structural reform and optimisation of material management and endeavoured to realise communal storage and usage of inventory in order to control the increase in the inventory. By strengthening risk control and conducting specific investigations on current accounts and assets, the capital risk was reduced in an effective manner.

Accelerating the implementation of the clean energy development strategy

The Company expedited the “ultra-low emission” renovation of coal-fired generating units and was the first among power companies to complete the “ultra-low emission” renovation for all coal-fired generating units in Beijing, Tianjin, Hebei and Anhui area, becoming a nationwide pioneer in the clean coal power generation development. In the first half of the year, the “ultra-low emission” renovation of 7,340 MW coal-fired generating units was completed, and the total installed capacity of coal-fired generating units with “ultra-low emission” technology reached 27,650 MW, accounting for 52.9% of the total installed capacity of all coal-fired power generating units of the Company. As of the end of June, 31 “ultra-low emission” coal-fired generating units were supported by policies including tariff subsidies, which boosted the efficiency and expanded the room for the development of the power business of the Company.

The Company continued to promote the establishment of digital mines and ecological construction and explore green and efficient production methods of coal. It strengthened the quality management of coal and promoted the initiation of the substitution of bulk coal in key areas in Beijing, Tianjin and Hebei by relying on the brand of clean coal of Shenhua. In the first half of the year, the sales of clean coal amounted to 1.38 million tonnes.

The construction proposal of a national key laboratory for “Preservation and Utilisation of Water Resources in Coal Mining” entered a crucial stage after verification by experts. A research and development system for clean coal was gradually formed. In the first half of the year, the Company was granted 342 patents in total, in which 108 patents were invention patents.

Company-wide investigations and examination of carbon were completed for the first time, and the voluntary emission reduction projects were carried out, as part of the proactive efforts of the Company to cope with the changes in policies on carbon emissions reduction and carbon transactions.

THE SECOND HALF OF 2016: OPTIMIZING OPERATION, IMPROVING QUALITY, ENHANCING EFFICIENCY AND ACHIEVING FAVOURABLE OPERATING RESULTS

In the second half the year, the domestic macro-economy is expected to maintain the development momentum of achieving progress amidst stability. The PRC government will continue to promote the supply-side structural reform and devote efforts to resolving the excess capacity of the coal industry, which are beneficial to the stability in the relationship between the supply and demand of coal market. With the in-depth efforts in the reform of the power system, competition among thermal power enterprises intensified. Based on the prudent analysis of the changes in market scenarios and the actual circumstances surrounding the Company, the board of directors of the Company has made adjustments to the annual operating targets. Pursuant to the new operating targets, the Company will make every effort in achieving the production volume of 280 million tonnes for commodity coal, sales volume of 355 million tonnes for coal and total power output dispatch of 211.40 billion kwh.

The Company will adopt the clean energy development strategy as the leading strategy to optimise business units, enhance marketing efforts in the coal and power segments, strictly control the increase in costs and endeavour to achieve the operating targets. Key emphasis will be placed on the following aspects:

Improving the organisation of the integrated operation of coal production, transportation and marketing. Firstly, the Company will proactively implement the policy of excess capacities elimination and raise the production volume of the type of coal with high value and good economic efficiency based on market-optimised organization for production. Secondly, the Company will actively carry out coal procurement to meet the market demand. Thirdly, the Company will give priority to the sales of seaborne coal with the greatest cost-efficiency and seize the golden opportunity opened up by the upcoming summer peak period and heat supply in winter to proactively explore new markets for clean coals. The Company will continue to implement a pricing mechanism responsive to the market to ensure the maximum sales revenue. Fourthly, based on the foundation of continuing to speed up the “ultra-low emission” renovation of coal-fired generating units, the Company will strengthen the refined management of power plants, dedicate efforts to the decomposition of power generation plans and seize the market share in the coal power sector. In the second half the year, the Company plans to complete the “ultra-low emission” renovation of 10 coal-fired generating units with the total capacity of approximately 7,210 MW to promote clean development. Fifthly, on the basis of ensuring the transportation of its own coal, the Company will formulate the development plan for the logistic industry and accelerate the establishment of a logistic information platform to explore the income growth capability for the transportation business in an in-depth fashion.

Keeping close tabs on project investment to achieve sustainable development. The Company will continue to step up the efforts on the investment analysis of projects under construction and to be constructed and risk assessment for project commencement. The Company will implement the investment strategy of taking safeguard measures whilst avoiding speculative investments according to the investment return analysis on the total life cycle of projects, and stably develop the investment and construction of projects with relatively good estimated investment return. The coal-fired power projects of Sumsel-1 Coal Power (2×300 MW) and Jawa-7 Coal Power (2×1,000 MW) in Indonesia will proceed in an orderly manner, and investments will be made in the overseas clean coal power market.

Strengthening cost management and control to ensure operating efficiency. The Company will refine the accountability appraisal mechanism for cost reduction and efficiency enhancement, optimise the performance assessment and result application systems, and strengthen incentives of revenue distribution. The Company will establish the database for asset value indicators, enhance the research and analysis of asset disposal, further revitalise assets and improve asset operating efficiency.

Striving for innovation and promoting reform. The Company will increase the investment in technological research, cultivate technological innovation systems and mechanisms suitable for the development of the Company, expedite the commercialisation of achievements and promote transition and development of traditional industries through technological innovations. The Company will advance the corporate reform steadily, optimise the corporate management and control model and governance structure of the Company, and increase its integrated competitive edges.

In the second half the year, based on new operating objectives, China Shenhua will proactively seize market opportunities, embrace market challenges, improve the operation quality and efficiency, promote healthy and sustainable development of various businesses, and speed up the implementation of the clean energy strategy to create greater value for investors.

III. MANAGEMENT DISCUSSION AND ANALYSIS

I. Discussion and Analysis on the Operation of the Company during the Reporting Period

(I) Overview of operation

In the first half of 2016, under the guidance of clean energy development strategy, China Shenhua coped with unfavourable environment in the coal and power markets proactively, organized operation delicately, intensify its efforts to optimise structure, explore new market opportunities, enhance quality, increase efficiency, and achieved smooth development of production and operation.

The Group recorded a profit for the period attributable to equity holders of the Company of RMB10,827 million (first half of 2015: RMB13,419 million (restated)), and basic earnings per share of RMB0.544/share (first half of 2015: RMB0.675/share (restated)), representing a year-on-year decrease of 19.3%.

Major financial indicators of the Group for the first half of 2016 are as follows:

		In the first half of 2016	In the first half of 2015 (Restated)	Change (%)
Return on total assets as at the end of the period	%	2.6	3.1	Decreased by 0.5 percentage point
Return on net assets as at the end of the period	%	3.6	4.5	Decreased by 0.9 percentage point
EBITDA	RMB million	34,399	35,544	(3.2)
		As at 30 June 2016	As at 31 December 2015	Change (%)
Net assets per share	RMB/share	15.22	14.99	1.5
Liability to asset ratio	%	34.2	35.0	Decreased by 0.8 percentage point
Total debt to (total debt + total equity)	%	22.8	23.1	Decreased by 0.3 percentage point

(II) Analysis on principal business

1. Table of analysis on changes in items in the condensed consolidated statement of profit or loss and other comprehensive income and condensed consolidated statement of cash flows

Unit: RMB million

Item	This period	Same period last year (Restated)	Change (%)
Revenue	78,723	90,001	(12.5)
Cost of sales	(52,188)	(60,815)	(14.2)
Other gains and losses	(152)	(436)	(65.1)
Other income	694	349	98.9
Interest income	174	408	(57.4)
Finance costs	(2,946)	(2,213)	33.1
Share of results of associates	35	129	(72.9)
Income tax expense	(4,701)	(4,681)	0.4
Net cash generated from operating activities	38,207	32,189	18.7
Of which: Net cash (used in) generated from operating activities of Shenhua Finance Company ^{Note}	(9,974)	9,068	(210.0)
Net cash generated from operating activities excluding the effect of Shenhua Finance Company	48,181	23,121	108.4
Net cash used in investing activities	(10,794)	(11,756)	(8.2)
Net cash used in financing activities	(3,583)	(4,791)	(25.2)

Note: As Shenhua Finance Company provides financial services including deposits and borrowings for entities other than the Group, the item represents the cash flows of deposits and borrowings and interest, fees and commission used by this business.

(1) Factors affecting the changes of revenue

The revenue of the Group in 2016 recorded a year-on-year decrease of 12.5%. The main reasons for such change are:

- (1) coal price rebounded in the first half of the year but still being lower than the level of the same period last year, resulting in a year-on-year decrease of 14.5% in the Group's average sales price of coal to RMB271 per tonne in the first half of 2016 (first half of 2015: RMB317 per tonne (restated));
- (2) being affected by the decrease in on-grid tariff, average power tariff of the Group in the first half of 2016 was RMB306/mwh (first half of 2015: RMB342/mwh (restated)), representing a year-on-year decrease of 10.5%;
- (3) a decrease in sales and selling price of coal-to-olefins products;
- (4) a decrease in the materials trading business volume.

Major operating indicators	Unit	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)
(I) Coal				
1. Commercial coal	Million tonnes	139.7	139.4	0.2
2. Coal sales	Million tonnes	186.3	177.8	4.8
Of which: self-produced coal	Million tonnes	139.6	138.3	0.9
purchased coal	Million tonnes	46.7	39.5	18.2
(II) Power generation				
1. Gross power generation	Billion kwh	111.01	110.20	0.7
2. Total power output dispatch	Billion kwh	103.90	102.81	1.1
(III) Coal chemical				
1. Sales of polyethylene	Thousand tonnes	129.6	163.2	(20.6)
2. Sales of polypropylene	Thousand tonnes	124.8	153.2	(18.5)
(IV) Transportation				
1. Turnover of self-owned railway	Billion tonne km	119.8	98.5	21.6
2. Seaborne coal	Million tonnes	112.3	97.9	14.7
Of which: At Huanghua Port	Million tonnes	76.5	51.4	48.8
At Shenhua Tianjin Coal Dock	Million tonnes	20.4	20.0	2.0
At Shenhua Zhuhai Coal Dock	Million tonnes	2.4	3.1	(22.6)
3. Shipping volume	Million tonnes	36.3	39.8	(8.8)
4. Shipment turnover	Billion tonne nautical miles	29.0	32.8	(11.6)

(2) Changes in costs

Unit: RMB million

Breakdown of cost items	Amount for the period	Percentage to cost of sales for the period (%)	Amount for the same period of the previous year (Restated)	Percentage to cost of sales for the same period of the previous year (%)	Change in
					amount for the period over that of the same period of the previous year (%)
Coal purchased	6,925	13.3	9,673	15.9	(28.4)
Materials, fuel and power	8,137	15.6	8,155	13.4	(0.2)
Personnel expenses	5,652	10.8	5,490	9.0	3.0
Depreciation and amortization	10,593	20.3	9,684	15.9	9.4
Repairs and maintenance	4,191	8.0	4,476	7.4	(6.4)
Transportation charges	4,687	9.0	6,043	9.9	(22.4)
Taxes and surcharges	2,465	4.7	3,097	5.1	(20.4)
Other operating costs	9,538	18.3	14,197	23.4	(32.8)
Total cost of sales	52,188	100.0	60,815	100.0	(14.2)

The cost of sales of the Group in the first half of 2016 represented a year-on-year decrease of 14.2%, of which:

- (1) the cost of coal purchased represented a year-on-year decrease of 28.4%, which was mainly attributable to the decrease in the purchase price of coal;
- (2) depreciation and amortization costs represented a year-on-year increase of 9.4%, which was mainly attributable to the increase in fixed assets of power and transportation business;
- (3) repairs and maintenance costs represented a year-on-year decrease of 6.4%, which was mainly attributable to the decrease in repair costs of the railway business under the influence of the repair cycle;

- (4) transportation charges mean the costs incurred through external railway, expressway, shipping transportation, the use of external port and so forth. In the first half of 2016, such charges represented a year-on-year decrease of 22.4%, which was mainly attributable to the decrease in transportation volume through national railways;
 - (5) Taxes and surcharges represented a year-on-year decrease of 20.4%, which was mainly attributable to the decrease in resource tax as a result of the decrease in coal price; the decrease in business tax after full implementation of the replacement of business tax with value-added tax in May 2016;
 - (6) other operating costs represented a year-on-year decrease in 32.8%, which was mainly attributable to the decrease in the materials trading business volume.
- (3) Other items of consolidated statement of profit or loss and other comprehensive income
- (1) Other gains and losses: representing a year-on-year decrease of 65.1% in the first half of 2016 which was mainly attributable to the provision for impairment of power generation facilities and related equipment of the closed Beijing Thermal Power Plant for the same period last year.
 - (2) Other income: representing a year-on-year increase of 98.9% in the first half of 2016, which was mainly attributable to the increase in government grants for gas-fired power received by the Company as a result of the commencement of operation of Beijing Gas.
 - (3) Interest income: representing a year-on-year decrease of 57.4% in the first half of 2016, which was mainly attributable to the decrease in interest income as a result of the decrease in interest rates, and a year-on-year decrease in gains from loans made to external parties.

- (4) Finance costs: representing a year-on-year increase of 33.1% in the first half of 2016, which was mainly attributable to the decrease in capitalized interest and the increase in interest expenses included in finance costs as a result of the commencement of operation of certain new railway projects, and the exchange loss in borrowings denominated in Japanese Yen arising from the appreciation of Japanese Yen.
- (5) Share of results of associates: representing a year-on-year decrease of 72.9% in the first half of 2016, which was mainly attributable to the decrease in gains as a result of capital checkup and verification for the units under power generation enterprises of associates.
- (6) Income tax expense: representing a year-on-year increase of 0.4% in the first half of 2016, and the average rate of income tax in the first half of 2016 was 24.1% (first half of 2015: 20.6% (restated)), with an increase of 3.5 percentage points, which was mainly attributable to the decrease in proportion of profit from coal segment which was entitled to more preferential tax rate; increase in proportion of profit from power generation and transportation segment which was entitled to less preferential tax rate; and part of the deductible taxation losses incurred by operating losses of certain branches of subsidiaries were not recognized as deferred tax assets because of the uncertainty of the pay-back period.

(4) Cash flow

- (1) Net cash generated from operating activities: a year-on-year increase of 18.7% in the first half of 2016, of which, net cash used in operating activities of Shenhua Finance Company was RMB9,974 million (first half of 2015: RMB9,068 million generated from operating activities (restated)), representing a year-on-year change of 210.0%, which was mainly due to the increase in deposits by Shenhua Finance Company. Excluding the effects of Shenhua Finance Company, net cash generated from operating activities of the Group represented a year-on-year increase of 108.4%. This was mainly due to the maturity for payment of bank acceptance bills receivable and the decrease in tax paid.

- (2) Net cash used in investing activities: represented a year-on-year decrease of 8.2% in the first half of 2016. This was mainly due to the decrease in net cash paid for acquisition of long-term assets.
- (3) Net cash used in financing activities: represented a year-on-year decrease of 25.2% in the first half of 2016. This was mainly due to the year-on-year increase in net amounts generated by external debt financing activities.

(5) Investment in research and development

Expensed research and development expenditure in the period (<i>RMB million</i>)	126
Capitalized research and development expenditure in the period (<i>RMB million</i>)	65
Total research and development expenditure (<i>RMB million</i>)	191
Ratio of capitalized research and development expenditure (%)	34.0
Percentage of total research and development expenditure to revenue (%)	0.2
Number of research and development personnel in the Company (<i>number of person</i>)	3,128
The ratio of research and development personnel to the total number of persons in the Company (%)	3.4

In the first half of 2016, the investment in research and development of the Group represented a year-on-year decrease of 26.8% (first half of 2015: RMB261 million (restated)), which was mainly used for researches such as mine transportation and deployment system, heavy-loaded railway technique, safety management for key railway projects, comprehensive use of coal ash after combustion and preservation and usage of water resources in mining area.

2. Details on material changes in the composition of profit or source of profit of the Company

The major changes in the composition of profit of the Group during the reporting period: the proportion of the profit from operations of the coal and power segments decreased while that of the transportation segment increased. The proportion of the profit from operations of the coal chemical segment turned from positive into negative. Based on the profit from operations of all business segments before elimination on consolidation under the International Financial Reporting Standards, the percentages of the profit from operations attributable to the coal, power and transportation segments of the Group changed to 23%, 37% and 41% respectively in the first half of 2016 from 31%, 43% and 24% in the first half of 2015.

(III) Analysis on Assets and Liabilities

Unit: RMB million

Item	Amount at the end of the period	Percentage of total assets at the end of the period (%)	Amount at the beginning of the period	Percentage of total assets at the beginning of the period (%)	Change in amount between the two periods (%)	Main reasons for changes
Construction in progress	38,950	6.9	33,610	6.0	15.9	Increase in investment in power business engineering projects
Inventories	14,192	2.5	12,816	2.3	10.7	Increase in coal inventory and spare parts
Accounts and bills receivable	26,570	4.7	41,019	7.3	(35.2)	Decrease in accounts receivable as a result of decrease in revenue of power business, settlement of receivables from power output dispatch; and notes being become due for repayment and decrease in receipt of bank acceptance bills
Prepaid expenses and other current assets	16,197	2.9	19,351	3.5	(16.3)	Decrease in prepayment for purchasing coal and the amounts of materials trading, and decrease in short-term loans made by Shenhua Finance Company
Restricted bank deposits	5,324	0.9	4,611	0.8	15.5	Increase in mandatory reserve balance of Shenhua Finance Company placed in the central bank
Cash and cash equivalents	66,189	11.7	42,323	7.6	56.4	Due for payment of bank acceptance bills
Short-term debenture	0	0.0	4,998	0.9	(100.0)	Maturity of super short-term commercial paper

Item	Amount at the end of the period	Percentage of total assets at the end of the period (%)	Amount at the beginning of the period	Percentage of total assets at the beginning of the period (%)	Change in amount between the two periods (%)	Main reasons for changes
Accounts and bills payable	32,095	5.7	33,990	6.1	(5.6)	Smaller scale of construction in progress and less corresponding procurement as compared with that of the beginning of the year, which resulted in less accounts payable; and less bank acceptance bills payable for the power generation and coal business
Accrued expenses and other payables	45,329	8.0	47,519	8.5	(4.6)	Decrease in balance of deposits placed with Shenhua Finance Company
Long-term borrowings	60,842	10.8	54,179	9.7	12.3	Increase in long-term borrowings from power generation, transportation and coal chemical business

(IV) Analysis on Operating Results by Business Segment

1. Operating Results of Principal Business by Business Segment (Before elimination on consolidation)

The principal operating model of the Group is: integrated industrial chains of coal production → coal transportation (railway, port and shipping) → coal utilization (power generation and coal chemical), each segment has business with each others.

Unit: RMB million

By business segment	Revenue	Cost of sales	Gross profit margin (%)	Increase/decrease in revenue over same period last year (%)	Increase/decrease in cost of sales over same period last year (%)	Increase/decrease in gross profit margin over same period last year (%)
Coal	52,997	45,908	13.4	(14.9)	(12.7)	Decreased by 2.2 percentage points
Power	32,803	23,170	29.4	(10.6)	(6.3)	Decreased by 3.2 percentage points
Railway	16,203	8,021	50.5	21.5	8.2	Increased by 6.1 percentage points
Port	2,402	1,124	53.2	35.8	9.0	Increased by 11.5 percentage points
Shipping	880	758	13.9	(12.9)	(18.0)	Increased by 5.4 percentage points
Coal chemical	1,934	1,988	(2.8)	(34.9)	(14.3)	Decreased by 24.7 percentage points

2. Coal segment

(1) Production operation and construction

The majority of the coal products produced and sold by the Group were mainly thermal coal. In the first half of 2016, the Group enhanced quality and increase efficiency, expanded the application of advanced production technique, equipment and system for coal segment to raise production efficiency. Emphasis was placed on strengthening the management of coal quality and increasing production of eco-friendly coal. It strengthened the adjustment of product structure and the enhancement of coal quality, improved the level of refined management, reduced costs and increased efficiency, thus the market competitiveness of its coal products was further elevated. In the first half of 2016, commercial coal production volume of the Group reached 139.7 million tonnes (first half of 2015: 139.4 million tonnes (restated)), representing a year-on-year increase of 0.2%.

In the first half of the year, the Company's coal exploration expenses (which were incurred before the conclusion of feasibility study and represented the expenses related to exploration and evaluation of coal resources) amounted to approximately RMB22 million (first half of 2015: RMB10 million), which was mainly attributable to the relevant expenses of Watermark Coal Project in Australia and EMM Indonesia Project in Indonesia. The Company's relevant capital expenditure of mining development and exploration amounted to approximately RMB378 million (first half of 2015: RMB1,363 million), which was mainly attributable to the expenditure related to exploration for coal mines including Shendong Mines and Baorixile Mines, acquisition of fixed assets as well as the development expenditure of Qinglongsi Mines.

Pursuant to the annual production plan and production continuity arrangement, in the first half of the year, underground mines of the Group accomplished total footage of advancing tunnels of 202 thousand meters (first half of 2015: 302 thousand meters), representing a year-on-year decrease of 33.1%.

Guojiawan Coal Mine entered the phase of trial operation. The construction of ancillary projects and the works for acceptance and inspection of projects were carried out in an orderly manner. The expansion works for Qinglongsi Coal Mine and the construction of coal processing plant were carried out simultaneously.

The Group has independently operated railway collection and distribution channels centralized and distributed in the rim of self-owned core mines, which can transport coal in the core mines. As at the end of the Reporting Period, the coal inventories of the Group were approximately 24.3 million tonnes, representing an increase of 1.7 million tonnes as compared with 22.6 million tonnes as at the end of the last year.

(2) Sales of coal

The Group implemented specialized division management. Mining areas are responsible for production of coal, and Shenhua Trading Group is mainly responsible for the sales of coal. Customers are from different industries such as power, metallurgy, chemical and construction materials. In the first half of 2016, the Group seized the favourable opportunity of supply-demand relation in the coal market to sell coal at around the market price adopting price strategy, strengthened the organization of purchased coal sourcing and mixture for coal types, and leveraged its advantages in the transportation by self-owned railway, thereby recording moderate growth in coal sales.

The sales volume of coal of the Group in the first half of 2016 amounted to 186.3 million tonnes (first half of 2015: 177.8 million tonnes (restated)), representing a year-on-year increase of 4.8%; among which the domestic sales volume of coals amounted to 183.2 million tonnes, accounting for 10.1% of the domestic consumption volume of coals for the same period which amounted to 1.81 billion tonnes¹; the weighted average coal sales price was RMB271/tonne (first half of 2015: RMB317/tonne (restated))(exclusive of tax), representing a year-on-year decrease of 14.5%. In the same period, the average Bohai Bay Thermal Coal Price Index (5,500 Kcal) decreased by 16.5% year-on-year. Benefiting from the supply side reform and the implementation of the 276 days/year working system of coal mines, the average coal selling price of the Group in the second quarter amounted to RMB274/tonne, representing an increase of RMB6/tonne as compared with RMB268/tonne, the average coal selling price of the Group in the first quarter.

In the first half of the year, the sales volume of the Company to the five largest domestic customers of coal was 24.2 million tonnes, which accounted for 13.2% of the total domestic sales volume. In particular, the sales volume to the largest customer was 8.6 million tonnes, which accounted for 4.7% of the domestic sales volume. The five largest domestic customers of coal were primarily coal, power companies.

The Group continued the implementation of online coal trading relying on Shenhua Coal Trading Network (<https://www.e-shenhua.com>) developed by the Group. In the first half of 2016, the amount of coal trading through Shenhua Coal Trading Network reached 100.9 million tonnes (first half of 2015: 101.7 million tonnes). Development of online coal trading helps reducing transaction costs.

¹ Source: China Coal Transportation and Sale Society.

① By source of coal and sales regions

	In the first half of 2016			In the first half of 2015 (restated)			Change	
	Proportion		Price	Proportion		Price	Sales	
	Sales volume	of total sales		Sales volume	of total sales		volume	Price
	million		million					
	tonnes	%	RMB/tonne	tonnes	%	RMB/tonne	%	%
I. Domestic sales	183.2	98.3	271	175.4	98.7	317	4.4	(14.5)
(I) Self-produced coal and purchased coal	180.9	97.0	273	168.0	94.5	314	7.7	(13.1)
1. Direct arrival	69.9	37.4	201	70.7	39.8	239	(1.1)	(15.9)
2. Seaborne	111.0	59.6	318	97.3	54.7	369	14.1	(13.8)
(II) Sales of domestic trading coal	2.2	1.2	128	7.4	4.2	381	(70.3)	(66.4)
(III) Sales of imported coal	0.1	0.1	366	0.0	0.0	–	N/A	N/A
II. Export Sales	1.3	0.7	401	0.6	0.3	468	116.7	(14.3)
III. Overseas coal sales	1.8	1.0	179	1.8	1.0	252	0.0	(29.0)
(I) EMM Indonesia	0.9	0.5	71	0.8	0.4	81	12.5	(12.3)
(II) Re-export trade	0.9	0.5	293	1.0	0.6	393	(10.0)	(25.4)
Total sales volume/weighted average price	186.3	100.0	271	177.8	100.0	317	4.8	(14.5)

Note: Sales prices of coal in this report are all exclusive of tax.

In the first half of the year, the average selling price for domestic trading coal decreased 66.4% year-on-year, mainly attributable to the sharp drop in the percentage of seaborne trading coal, which had a significantly higher selling price.

② By internal and external customers

	In the first half of 2016			In the first half of 2015 (restated)			Change in price
	Sales volume	Percentage	Price	Sales volume	Percentage	Price	
	million			million			
	tonnes	%	RMB/tonne	tonnes	%	RMB/tonne	
Sales to external customers	145.4	78.0	274	135.4	76.2	318	(13.8)
Sales to internal power segment	39.1	21.0	265	40.2	22.6	315	(15.9)
Sales to internal coal chemical segment	1.8	1.0	185	2.2	1.2	277	(33.2)
Total coal sales volume/weighted average price	186.3	100.0	271	177.8	100.0	317	(14.5)

The Company adopted unified pricing policies in coal sales to internal power segment, coal chemical segment and external customers.

(3) Production safety

In the first half of 2016, the Company optimized restraint mechanism for safety responsibility, comprehensively detected and prevented risk associated with systematic safety, enhanced contingency plans for production safety accidents, strengthened safety management and control for key units and segments and consolidated the foundation of safety management.

During the reporting period, the fatality rate per million tonnes of raw coal production of the Company was zero.

(4) Environmental protection

In the first half of 2016, the Group upheld the philosophy of green coal of “producing environmentally-friendly coal and constructing ecological mines”, the Company actively launched special activities for rectifying environmental issues and related works for reclamation of open-pit mine and paid for a total of RMB32 million of sewage charges.

As at 30 June 2016, balance of the “accrued reclamation obligations” amounted to RMB2,265 million, serving as strong financial guarantee for ecological construction.

(5) Coal resources

As at 30 June 2016, the Group had coal resources amounting to 24.16 billion tonnes and recoverable coal reserve amounting to 15.61 billion tonnes under the PRC Standard; and the Group’s marketable coal reserve amounted to 8.79 billion tonnes under the JORC Standard.

Unit: '00 million tonnes

Mines	Coal resources (under the PRC Standard)	Recoverable coal reserve (under the PRC Standard)	Marketable coal reserve (under the JORC Standard)
Shandong Mines	165.5	96.7	50.5
Zhunge'er Mines	40.5	32.5	22.1
Shengli Mines	20.6	14.2	2.6
Baorixile Mines	14.5	12.3	12.7
Baotou Mines	0.5	0.4	0.0
Total	241.6	156.1	87.9

Characteristics of the commercial coal produced by the Company's major mines are as follows:

Mines	Major types of coal	Calorific value of major commercial coal products (kcal/kg)	Sulphur content	Ash content (average)
Shandong Mines	Long flame coal/ non-caking coal	Approximately 5,500	≤0.50%	Approximately 16.0%
Zhunge'er Mines	Long flame coal	Approximately 4,700	≤0.50%	Approximately 26.5%
Shengli Mines	Lignite	Approximately 3,200	≤0.75%	Approximately 19.5%
Baorixile Mines	Lignite	Approximately 3,650	≤0.25%	Approximately 14.5%
Baotou Mines	Non-caking coal	Approximately 4,500	≤0.65%	Approximately 15.0%

Note: The above calorific value, sulphur content and ash content of major commercial coal products produced by each mine may be inconsistent with the characteristics of the commercial coal products produced by individual mine and those of the commercial coal products sold by the Company due to such factors as geological conditions, mining area, coal washing, selecting and processing, transportation loss and coal blending ratio.

(6) Operating results

① The operating results of the coal segment of the Group before elimination on consolidation

		In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Main reasons for changes
Revenue	RMB million	52,997	62,300	(14.9)	Decrease in coal selling price and decrease in income from material trading business
Cost of sales	RMB million	45,908	52,558	(12.7)	The decrease in the material trading business and the decrease in the purchased coal price and the unit production cost of self-produced coal
Gross profit margin	%	13.4	15.6	Decreased by 2.2 percentage points	
Profit from operations	RMB million	5,155	7,623	(32.4)	
Profit margin from operations	%	9.7	12.2	Decreased by 2.5 percentage points	

② The sales and gross profit of the coal of the Group before elimination on consolidation

	In the first half of 2016				In the first half of 2015 (Restated)			
	Revenue RMB million	Costs RMB million	Gross profit RMB million	Gross profit margin %	Revenue RMB million	Costs RMB million	Gross profit RMB million	Gross profit margin %
Domestic	49,650	41,448	8,202	16.5	55,597	43,613	11,984	21.6
Export and overseas	834	684	150	18.0	723	653	70	9.7
Total	50,484	42,132	8,352	16.5	56,320	44,266	12,054	21.4

The coal sold by the Group is mainly produced in self-owned mines. In order to fulfill the needs of customers and adequately make use of railway transportation, the Group also sold to external customers after purchasing coal from third parties from the surrounding areas of the self-owned mines and railways to produce different kinds and level of coal products. As there are many kinds of coal products and different ratios of mixture of purchased coal, it may be difficult to review the revenue, costs and gross profit of coal in accordance with the sources of coal (self-produced coal and purchased coal).

③ Unit production cost of self-produced coal

Unit: RMB/tonne

	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Main reasons for changes
Materials, fuel and power	18.9	20.4	(7.4)	Decrease in tunneling footage for underground mines over the same period last year
Personnel expenses	17.3	17.1	1.2	
Repairs and maintenance	6.6	8.2	(19.5)	Maintenance cycle was duly extended on the premise of guarantee of safety and normal production
Depreciation and amortization	20.6	21.1	(2.4)	
Other costs	41.0	50.2	(18.3)	Decrease in the mine construction fees, taxation and land resumption and compensation for land subsidence
Unit production cost of self-produced coal	104.4	117.0	(10.8)	

Other costs consist of the following three components:(1) expenses directly related to production, including coal washing, selecting and processing expenses, and mining engineering expenses, etc., accounting for 68%; (2) auxiliary production expenses, accounting for 11%; (3) land requisition and surface subsidence compensation, environmental protection expenses, fees levied by local government, etc., accounting for 21%.

④ Cost of coal purchased from third parties

The Group's coal purchased from third parties includes coal purchased from the surrounding areas of the self-owned mines and railways, domestic trading coal, imported and re-exported coal.

In the first half of 2016, costs of coal purchased by the Group from third parties was RMB6,925 million (first half of 2015: RMB9,673 million (restated)), representing a year-on-year decrease of 28.4%. The decrease was mainly due to the relatively large decrease in the purchase price of coal.

In the first half of 2016, the sales volume of coal purchased from third parties was 46.7 million tonnes (first half of 2015: 39.5 million tonnes (restated)), representing a year-on-year increase of 18.2%, and its proportion of sales volume of coal increased to 25.1% from 22.2% (restated) in the first half of 2015. The increase was mainly attributable to the increase in coal procurement in the surrounding areas of the self-owned mines and railways to meet the market demand and to fully utilize the transportation capacity of self-owned railway under the limited additional supply of self-produced coal.

3. Power segment

(1) Production and operations

In the first half of 2016, the Company intensified its marketing efforts in the power segment and strived to increase in power generation. The gross power generation achieved 111.01 billion kwh in the first half of 2016 (first half of 2015: 110.20 billion kwh (restated)), representing a year-on-year increase of 0.7%; total power output dispatch of 103.90 billion kwh (first half of 2015: 102.81 billion kwh (restated)), representing a year-on-year increase of 1.1%, accounting for 3.7% of 2,775.9 billion kwh¹ of the total power consumption of society at the same period.

(2) Power generation, power output dispatch and power tariffs

① Classified by power type

Power type	Gross power generation (billion kwh)			Total power output dispatch (billion kwh)			Power tariff (RMB/mwh)		
	In the first half of	In the first half of 2015	Change (%)	In the first half of	In the first half of 2015	Change (%)	In the first half of	In the first half of 2015	Change (%)
	2016	(Restated)		2016	(Restated)		2016	(Restated)	
coal-fired power	107.67	109.14	(1.3)	100.65	101.78	(1.1)	301	339	(11.2)
wind power	0.02	0.01	100.0	0.02	0.01	100.0	595	596	(0.2)
hydro power	0.28	0.27	3.7	0.27	0.26	3.8	252	255	(1.2)
gas-fired power	3.04	0.78	289.7	2.96	0.76	289.5	461	761	(39.4)
Total/weighted average	111.01	110.20	0.7	103.90	102.81	1.1	306	342	(10.5)

In the first half of 2016, average power tariff of gas-fired power plant decreased by 39.4% as compared with the same period last year, which was mainly due to the commencement of operation of Beijing Gas Thermal Power Project in the first half of 2015, the power tariff of which was relatively low, and the decrease in power tariff from Yuyao Power.

¹ Source: China Electricity Council

② Classified by operating area

Location/ Type of power	Power generation (billion kwh)			Power output dispatch (billion kwh)			Power tariff
	First half of 2016	First half of 2015 (Restate)	Change	First half of 2016	First half of 2015 (Restate)	Change	(RMB/mwh)
			(%)			(%)	First half of 2016
Beijing	1.98	0.56	253.6	1.93	0.48	302.1	401
coal-fired power	-	0.56	(100.0)	-	0.48	(100.0)	-
natural gas power	1.98	-	N/A	1.93	-	N/A	401
Tianjin	2.17	2.93	(25.9)	2.02	2.74	(26.3)	337
coal-fired power	2.17	2.93	(25.9)	2.02	2.74	(26.3)	337
Hebei	15.72	16.77	(6.3)	14.73	15.66	(5.9)	291
coal-fired power	15.72	16.77	(6.3)	14.73	15.66	(5.9)	291
Inner Mongolia	9.82	10.85	(9.5)	8.96	9.79	(8.5)	210
coal-fired power	9.82	10.85	(9.5)	8.96	9.79	(8.5)	210
Shaanxi	11.77	10.78	9.2	10.75	9.85	9.1	253
coal-fired power	11.77	10.78	9.2	10.75	9.85	9.1	253
Shanxi	1.41	0.45	213.3	1.32	0.41	222.0	261
coal-fired power	1.41	0.45	213.3	1.32	0.41	222.0	261
Ningxia	1.44	1.97	(26.9)	1.29	1.79	(27.9)	192
coal-fired power	1.44	1.97	(26.9)	1.29	1.79	(27.9)	192
Liaoning	7.99	6.55	22.0	7.50	6.13	22.3	295
coal-fired power	7.99	6.55	22.0	7.50	6.13	22.3	295
Jiangsu	13.18	13.43	(1.9)	12.57	12.79	(1.7)	314
coal-fired power	13.18	13.43	(1.9)	12.57	12.79	(1.7)	314
Zhejiang	13.26	13.54	(2.1)	12.54	12.86	(2.5)	370
coal-fired power	12.20	12.76	(4.4)	11.51	12.10	(4.9)	352
natural gas power	1.06	0.78	35.9	1.03	0.76	35.5	573
Anhui	9.94	6.66	49.2	9.46	6.30	50.2	299
coal-fired power	9.94	6.66	49.2	9.46	6.30	50.2	299
Fujian	4.18	4.28	(2.3)	3.94	4.06	(3.0)	316
coal-fired power	4.18	4.28	(2.3)	3.94	4.06	(3.0)	316
Guangdong	8.89	12.09	(26.5)	8.26	11.29	(26.8)	377
coal-fired power	8.87	12.08	(26.6)	8.24	11.28	(27.0)	376
wind power	0.02	0.01	100.0	0.02	0.01	100.0	595
Henan	2.16	2.15	0.5	2.03	2.02	0.5	312
coal-fired power	2.16	2.15	0.5	2.03	2.02	0.5	312

Location/ Type of power	Power generation (billion kwh)			Power output dispatch (billion kwh)			Power tariff
	First half	First half of	Change	First half	First half of	Change	(RMB/mwh)
	of 2016	2015 (Restate)		of 2016	2015 (Restate)		First half
			(%)			(%)	of 2016
Sichuan	1.33	2.21	(39.8)	1.22	2.02	(39.6)	391
coal-fired power	1.05	1.94	(45.9)	0.95	1.76	(46.0)	432
hydropower	0.28	0.27	3.7	0.27	0.26	3.8	252
Chongqing	2.61	0.85	207.1	2.50	0.81	208.6	355
coal-fired power	2.61	0.85	207.1	2.50	0.81	208.6	355
Xinjiang	2.33	3.21	(27.4)	2.15	2.99	(28.1)	204
coal-fired power	2.33	3.21	(27.4)	2.15	2.99	(28.1)	204
Indonesia	0.83	0.92	(9.8)	0.73	0.82	(11.0)	435
coal-fired power	0.83	0.92	(9.8)	0.73	0.82	(11.0)	435
Total/weighted average	111.01	110.20	0.7	103.90	102.81	1.1	306

(3) Installed capacity

During the reporting period, the Group did not add new installed capacity. At the end of the reporting period, the total installed capacity of the Group reached 54,128MW, accounting for 3.6% of 1.52 billion kw of the total installed capacity of the power generation plants nationwide with capacity of 6,000 kw and above; among which, the total installed capacity of the coal-fired power generators is 52,257MW, which was 96.5% of the total installed capacity of the Group.

(4) Utilization rate of power generation equipment

Affected by the slowdown in the growth of the total power consumption of the society and increasing market share of non-fossil fuel power generation, the Group's coal-fired generators operated with an average utilization hours of 2,060 hours in the first half of 2016, representing a year-on-year decrease of 7.4% and 29 hours above the national average utilisation hours of 2,031 hours of coal-fired generators. Through refined management, the efficiency of power generation increased stably and the average power consumption rate of the power plant decreased 0.24 percentage point as compared with the same period last year. As at the end of the reporting period, the installed capacity of circulating fluidized bed generating units of the Group reached 7,024MW, which was 13.4% of the installed capacity of the coal-fired units of the Group. Coal type of circulating fluidized bed generating units was highly adaptable. However, the efficiency of the generating units was slightly low and the power consumption ratio was high.

Power type	Average utilization hours (Number of hours)			Power consumption ratio of power plant (%)		
	In the first half of 2016	In the first half of 2015	Change (%)	In the first half of 2016	In the first half of 2015	Change
		(Restated)			(Restated)	
Coal-fired power	2,060	2,224	(7.4)	5.90	6.06	Decreased by 0.16 percentage point
Wind power	1,113	746	49.2	0.72	0.91	Decreased by 0.19 percentage point
Hydropower	2,252	2,141	5.2	0.26	0.32	Decreased by 0.06 percentage point
Gas-fired power	1,755	1,005	74.6	2.07	2.24	Decreased by 0.17 percentage point
Weighted Average	2,051	2,208	(7.1)	5.78	6.02	Decreased by 0.24 percentage point

(5) Environmental protection

The power segment expedited the clean utilisation of coal and clean development of coal-fired power¹ and continued to implement the denitrification and “ultra low-emission” renovation. As at the end of the reporting period, fifty one “ultra-low-emission” coal-fired generators with total installed capacity of 27,650MW were newly constructed and renovated by the Group, accounting for 52.9% of the total installed capacity of coal-fired power generator of the Group. The Group has completed the “ultra-low emission” renovation for all coal-fired generators in the Beijing-Tianjin-Hebei region and Anhui province, enjoying the leading position in the industry. The denitrification renovation has been completed for all coal-fired generators of the Group in the PRC.

In the first half of 2016, the average standard coal consumption rate for power output dispatch of coal-fired power generators of the Group for the year was 314 gram/kwh, representing a decrease of 4 gram/kwh from 318 gram/kwh (restated) as compared with the same period last year. A total of RMB99 million of sewage charges was paid.

(6) Analysis of operation results

① The operating results of the power segment of the Group before elimination on consolidation

		In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Main reasons for changes
Revenue	RMB million	32,803	36,708	(10.6)	Decrease in power tariff
Cost of sales	RMB million	23,170	24,731	(6.3)	Decrease in purchase price of fuel of power plants
Gross profit margin	%	29.4	32.6	Decreased by 3.2 percentage points	
Profit from operations	RMB million	8,167	10,452	(21.9)	
Profit margin from operations	%	24.9	28.5	Decreased by 3.6 percentage points	

② Revenue and cost from the sale of power of the Group before elimination on consolidation

Unit: RMB million

Power type	Revenue from sale of power			Cost of sale of power			Change in the	
	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Percentage to		In the first half of 2015 (Restated)	Percentage to costs of sale of power in the first half of 2015	first half of 2016 over the first half of 2015 (restated)
				costs of sale of power in the first half of 2016				
	In the first half of 2016	In the first half of 2015 (Restated)	In the first half of 2016	the first half of 2016	half of 2015 (Restated)	first half of 2015	(restated)	
Coal-fired power	30,959	35,245	(12.2)	21,082	93.1	23,253	97.7	(9.3)
Wind power	10	7	42.9	5	0.0	5	0.0	0.0
Hydropower	69	67	3.0	32	0.1	30	0.1	6.7
Gas-fired power	1,495	580	157.8	1,543	6.8	530	2.2	191.1
Total	32,533	35,899	(9.4)	22,662	100.0	23,818	100.0	(4.9)

The Group's cost of sale of power mainly comprised such costs as raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortization and other costs. The unit cost of power output dispatch of the Group in the first half of 2016 was RMB218.1/mwh (first half of 2015: RMB231.7/mwh (restated)), representing a year-on-year decrease of 5.9%, of which, the unit cost of power sold by coal-fired power plants was RMB209.5/mwh (first half of 2015: 228.5/mwh (restated)), representing a year-on-year decrease of 8.3%. The decrease was mainly due to the decrease in purchase costs of coal of power plants.

③ Analysis on cost of sale of power of coal-fired power plant of the Group before elimination on consolidation

	In the first half of 2016		In the first half of 2015 (Restated)		Change in costs
	Costs	Percentage	Costs	Percentage	
	<i>RMB million</i>	%	<i>RMB million</i>	%	%
Material, fuel and power	13,071	62.0	15,901	68.4	(17.8)
Personnel expense	1,472	7.0	1,522	6.5	(3.3)
Repairs and maintenance	1,149	5.5	992	4.3	15.8
Depreciation and amortization	4,398	20.8	4,048	17.4	8.6
Others	992	4.7	790	3.4	25.6
Total cost of power output dispatch of coal-fired power plant	21,082	100.0	23,253	100.0	(9.3)

The power segment consumed a total of 40.3 million tonnes of the Group's coal, accounting for 90.2% of the 44.7 million tonnes of the thermal coal consumption of the power segment of the Group in the first half of 2016 (in the first half of 2015: 90.3% (restated)).

4. Railway segment

(1) Overview of production and operations

Under the successive drop in transportation fee of national railways and the increasing competition, the railway segment leveraged its own advantages in railway and optimized its transportation organization to internally enhance quality and increase efficiency while externally open up for creating income. The Group accelerated the establishment of modernised macroscopic logistics system of Shenhua and actively promoted the transformation from dedicated coal transportation rail lines into macroscopic logistics railways.

The transportation turnover of self-owned railways in the first half of 2016 was 119.8 billion tonne km, representing a year-on-year increase of 21.6%, which accounted for 90.1% of the total turnover (first half of 2015: 83.6% (restated)).

(2) Progress of projects

The construction of new projects, including the newly-constructed Huangda Railway, remained in progress stably.

(3) Operating results

The operating results of the railway segment of the Group before elimination on consolidation are as follows:

		In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Main reasons for changes
Revenue	RMB million	16,203	13,338	21.5	Commencement of operation of new railways and the increase in railway transportation volume
Cost of sales	RMB million	8,021	7,415	8.2	The increase in the depreciation and amortization and personnel expenses as a result of the commencement of the operations of new railway lines as well as the increase in the relevant material, fuel and power costs arising from the increase in the transportation volume
Gross profit margin	%	50.5	44.4	Increased by 6.1 percentage points	
Profit from operations	RMB million	7,657	5,265	45.4	
Profit margin from operations	%	47.3	39.5	Increased by 7.8 percentage points	

In the first half of 2016, the revenue generated from the internal transportation services provided by the railway segment for the Group amounted to RMB14,465 million (first half of 2015: RMB11,679 million (restated)), representing a year-on-year increase of 23.9%, accounting for 89.3% of the revenue of the railway segment (first half of 2015: 87.6% (restated)).

In the first half of 2016, the unit transportation cost in the railway segment was RMB0.064/tonne km (first half of 2015: RMB0.073/tonne km (restated)), representing a year-on-year decrease of 12.3%, mainly due to the increase in transportation turnover volume of self-owned railways.

5. Port Segment

(1) Overview of production and operations

In the first half of 2016, the port segment optimized its port inventory management and increased utilization of stockpiles, and the matching between vessels and goods, which resulted in the substantial increase in the trading volume. The seaborne coal sales through the self-owned ports was 99.3 million tonnes, accounting for 88.4% of the total seaborne coal sales (first half of 2015: 76.1% (restated)).

(2) Analysis of operating results

The operating results of the port segment of the Group before eliminations on consolidation are as follows:

		In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Main reasons for changes
Revenue	RMB million	2,402	1,769	35.8	Increase in turnover volume of Huanghua Port
Cost of sales	RMB million	1,124	1,031	9.0	
Gross profit margin	%	53.2	41.7	Increased by 11.5 percentage points	
Profit from operations	RMB million	1,169	567	106.2	
Profit margin from operations	%	48.7	32.1	Increased by 16.6 percentage points	

In the first half of 2016, the revenue generated from the internal transportation services provided by the port segment for the Group amounted to RMB2,142 million (first half of 2015: RMB1,687 million (restated)), representing a year-on-year increase of 27.0% and accounting for 89.2% (first half of 2015: 95.4% (restated)) of the revenue of the port segment. Costs of internal transportation services provided for the Group amounted to RMB990 million.

6. Shipping Segment

(1) Overview of production and operations

The shipping segment improved its operating, deployment and management capacity, contributed to the integrated operation to cope with unfavourable impact of inadequate resources and actively expand market shares. In the first half of 2016, shipping volume amounted to 36.3 million tonnes and shipment turnover amounted to 29.0 billion tonne nautical miles.

(2) Operating results

The operating results of the shipping segment of the Group before eliminations on consolidation are as follows:

		In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Main reasons for changes
Revenue	RMB million	880	1,010	(12.9)	Decrease in shipping volume and shipping costs
Cost of sales	RMB million	758	924	(18.0)	Decrease in the relative costs as a result of the decrease in the transportation volume from third parties, and decrease in fuel costs
Gross profit margin	%	13.9	8.5	Increased by 5.4 percentage points	
Profit from operations	RMB million	72	35	105.7	
Profit margin from operations	%	8.2	3.5	Increased by 4.7 percentage points	

In the first half of 2016, the unit transportation cost of the shipping segment was RMB0.026/tonne nautical mile (first half of 2015: RMB0.028/tonne nautical mile (restated)), representing a year-on-year decrease of 7.1%, mainly due to the decrease in fuel costs.

7. Coal Chemical Segment

(1) Overview of production and operations

In the first half of 2016, based on the Company's operating and management objectives, the coal chemical segment aimed at a production and operation model of safety, steadiness, long-term, full loading and optimization with good product organization, continuously optimized the operation of equipment and strived to tap its potential and increased efficiency.

	In the first half of 2016		In the first half of 2015 (Restated)		Change (%)	
	Sales volume	Price	Sales volume	Price	Sales volume	Price
	<i>Thousand</i>		<i>Thousand</i>			
	<i>tonnes</i>	<i>RMB/tonne</i>	<i>tonnes</i>	<i>RMB/tonne</i>	<i>%</i>	<i>%</i>
Polyethylene	129.6	6,767	163.2	7,910	(20.6)	(14.5)
Polypropylene	124.8	5,035	153.2	7,179	(18.5)	(29.9)

The main reason for the year-on-year decrease in the production volume and sales volume of olefin products in the first half of the year was the 36-day maintenance annual downtime scheduled for the first half of the year while the maintenance arrangement of last year (last for ten days) was scheduled in the second half of that year.

(2) Analysis of operating results

The operating results of the coal chemical segment of the Group before eliminations on consolidation are as follows:

		In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	Main reasons for changes
Revenue	RMB million	1,934	2,969	(34.9)	Decrease in sales volume of coal-to-olefins products due to down time for maintenance, and decrease in sales price of coal-to-olefins products
Cost of sales	RMB million	1,988	2,319	(14.3)	Decrease in the sales volume of coal-to-olefin products and the raw material procurement price
Gross profit margin	%	(2.8)	21.9	Decreased by 24.7 percentage points	
Profit from operations	RMB million	(127)	563	(122.6)	
Profit margin from operations	%	(6.6)	19.0	Decreased by 25.6 percentage points	

(3) Unit production cost of main products

	In the first half of 2016		In the first half of 2015 (Restated)		Change (%)	
	Production volume <i>Thousand tonnes</i>	Unit production cost <i>RMB/tonne</i>	Production volume <i>Thousand tonnes</i>	Unit production cost <i>RMB/tonne</i>	Production volume <i>%</i>	Unit production cost <i>%</i>
Polyethylene	130.2	6,211	161.2	5,569	(19.2)	11.5
Polypropylene	124.3	5,609	160.0	5,210	(22.3)	7.7

All the coals consumed by the coal chemical segment were the Group's coals. The coals consumed in the first half of 2016 were 1.8 million tonnes, representing a decrease of 14.3% as compared to 2.1 million tonnes of last year.

8. Regional operation analysis (after elimination on consolidation)

Unit: RMB million

Area	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)
Revenue from external transactions in domestic markets	77,753	89,023	(12.7)
Revenue from external transactions in overseas markets	970	978	(0.8)
Total	78,723	90,001	(12.5)

Note: Revenue from external customers was classified based on the locations where the services were provided or the products were purchased.

The Group is mainly engaged in the production and sales of coal and power, railway, port and shipping transportation as well as coal-to-olefins businesses in domestic market. In the first half of 2016, the revenue from external transactions in domestic markets was RMB77,753 million, accounting for 98.8% of the Group's revenue.

In the first half of 2016, the Group actively respond to the promotion of "One Belt, One Road" initiative of the state by putting more efforts in international exploration. The operation of the EMM Indonesia Project is running steadily, which achieved favourable operating revenue. Satisfactory progress was made in the preliminary preparation works for Sumsel-1 Coal Power Project and Jawa-7 coal Power Project. The production of shale gas project in the United States reached 363 million cubic meters and maintained a stable operation. Other overseas projects were in progress on an orderly manner.

9. Macroscopic Logistics

In the face of the increasingly competitive coal market and the challenge presented by the excessive railway transportation capacity, the Group has devoted greater efforts to opening the transportation business to the public and determined the strategic transportation deployment of “promoting the transition of Shenhua’s transportation system from dedicated coal transportation rail lines towards the macroscopic logistics”. Ensuring the underlying services for the integrated operations and the transportation for its principal coal business, the Group has embarked on the operations of coal transportation for external customers and endeavored to foster the transportation for commodities other than coal, in turn utilizing the existing transportation capacity in an effective way for generating additional revenue.

In the first half of 2016, the self-owned railway of the Group recorded a transportation turnover of 119.8 billion tonne kilometers (the first half of 2015: 98.5 billion tonne kilometers (restated)), representing a year-on-year increase of 21.6%. The Group provided external customers with railway transportation and port shipping services for coal products. In the first half of the year, approximately 33.9 million tonnes of coal were transported. As of the end of June 2016 the non-coal transportation business had expanded into over ten types of commodities, with the throughput of non-coal commodities at the ports of 3.2 million tonnes in the first half of the year.

In the first half of 2016, the revenue from the provision of transportation services to third parties in the railway and port segments of the Group amounted to RMB1,998 million (the first half of 2015: RMB1,741 million (restated)), representing a year-on-year increase of RMB257 million or 14.8%.

BOARD'S DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

(I) Competition and Development Trend in the Industry

1. *Macro economy*

In the first half of the year, the Chinese government focused on growth stabilisation, structural adjustment and risk control. While properly expanding the total demand, the government has also accelerated the promotion of supply-side structural reform, and therefore, the overall national economy has been steady and improved at a steady pace. The realized GDP for the first half of the year was recorded a year-on-year increase of 6.7%, representing a decrease of 0.3 percentage points compared with the same period of last year. The residents' CPI was recorded a year-on-year increase of 2.1%, representing an increase of 0.8 percentage points compared with the same period of last year.

In the second half of the year, the Chinese government will continue to adhere to the general principle of making progress while ensuring stability, properly expanding the overall demand, unswervingly promoting the supply-side structural reform, accelerating the structural adjustment in economy as well as facilitating sustainable and sound development of national economy. The government will put effort on realizing a GDP growth of around 6.5% – 7.0% during the year and control the rise of residents' consumption price at round 3%. It is estimated that the coal demand during the year will decrease at a steady pace, whereas the power demand will increase at a slow pace.

2. *Market environment of the coal industry*

(1) Thermal coal market in the PRC

Review of the first half of the year

The supply-side reform policy of coal industry has progressively implemented in the first half of the year, and coal mines in the PRC have strictly implemented a system of 276 working days each year since 1 May 2016 (previously coal mines implemented a system of 330 working days each year). Therefore, the coal supply volume was restrained. The relationship between demand and supply of coal has turned to a direction in favorable to the supplier, resulting in a tight supply of coal resources in certain districts, and thus, the coal price has rallied. As of 30 June 2016, the price index of Bohai Bay thermal coal (5,500 Kcal) was RMB401/tonne, increasing by RMB30/tonne compared with the beginning of the year (RMB371/tonne).

In the first half of the year, production capacity of raw coal in the PRC was 1,630 million tonnes, representing a year-on-year decrease of 9.7%, of which the decline was significantly larger compared with the same period of last year, among which, Shanxi accounted for 390 million tonnes, representing a year-on-year decrease of 14.4%; Inner Mongolia accounted for 410 million tonnes, representing a year-on-year decrease of 10.4%; Shaanxi accounted for 200 million tonnes, representing a year-on-year decrease of 9.4%. The import volume of coal was significantly rebounded, and the accumulated import volume of coal in the first half of the year amounted to 108 million tonnes, representing a year-on-year increase of 8.2%.

Consumption volume of coal in the PRC in the first half of the year amounted to 1,810 million tonnes, representing a year-on-year decrease of 4.6%. In the main coal consumption downstream industry, there was a slight growth in coal consumption of construction material and chemical industries, whereas the coal consumption of power and iron and steel industries continued to show a downward trend.

Influenced by the situation of weak demand and supply in the coal market, the coal transportation volume by railways in the PRC was 910 million tonnes during the first half of the year, representing a year-on-year decrease of 11.2%. Coal outbound shipment through major ports in the PRC was 640 million tonnes, representing a year-on-year decrease of 5.6%.

As of 30 June, the coal storage in major ports in northern areas, major power plants and state-owned key coal mines was 125.1 million tonnes in aggregate, representing a decrease of 15.6% compared with the beginning of the year. The low-level coal storage will be in favorable to stabilise the short-term balance for demand and supply in coal market.

Prospects for the second half of the year

In the second half of the year, the Chinese government will continue to promote the reform of supply-side and implement the new working-day system of coal mines. Therefore, the volume of coal supply may continue to be restrained.

Coal demand in coastal areas is expected to rally and coal import during the year will be recorded a year-on-year increase due to the price advantages of Australia, Indonesia and other major coal exporters, as well as the decrease in the actual supply of domestic coal.

Affected by the seasonal factors such as summer demand peaks and winter heating season, it is expected that in the second half of the year, the coal demand will extend the stable trend with decreasing pressure from the first half of the year. Coal prices will be volatile with the implementation of the policy on elimination of excess capacity and new working days system of coal mines.

(2) Thermal coal market in the Asia Pacific region

Review of the first half of the year

Due to the sluggish global economic recovery and continuous deepening of structural adjustment in the energy sector, coal demand was weak in countries with traditionally high coal consumption during the first half of the year. Influenced by the decline of coal supply in the PRC and seasonal factors, the international coal price rebounded at a low level. The spot price of Newcastle NEWC thermal coal rebounded from US\$49.11/tonne at the beginning of the year to US\$55.32/tonne at the end of June.

There is a decrease in export volume of major coal exporters in the first half of the year. Indonesia exported 175.0 million tonnes of coal, representing a year-on-year decrease of 7.4%. The United States exported approximately 25 million tonnes of coal, representing a year-on-year decrease of over 30%. Australia exported approximately 187 million tonnes of coal, representing a year-on-year decrease slightly. Russia exported 79.0 million tonnes of coal, representing a year-on-year increase of 3.1%.

The production capacity of domestic coal in India significantly increased, whereas a decrease in the import of thermal coal with a cumulative import of 89.3 million tonnes of coal for the first five months was recorded, representing a year-on-year decrease of 8.3%. Japan and South Korea posted slightly decreased in coal import, among which Japan imported 93.2 million tonnes of coal, which was equivalent to the same period last year while South Korea imported 66.1 million tonnes of coal, representing a year-on-year decrease of 3.1%.

Prospects for the second half of the year

In the second half of the year, the condition of excessive production capacity of coal will subsist. Coal supply is still dominated by Indonesia and Australia. The volume of exports from Russia, Mongolia and other countries will show a steady growth.

China and India are the major consumers of coal. Following an increase in coal production capacity in India, the import may further decrease. It is expected that coal import in Japan and South Korea as well as in other countries and regions will remain relatively stable.

Affected by the weak global economic growth, structural adjustment in the energy sector, slowdown of consumption growth in the energy sector and other factors, it is expected that the global coal demand will post slight decrease at a steady pace and the price of thermal coal will continue the volatile trend of moving upwards at low level throughout the year of 2016.

3. *Market environment of the power industry*

Review of the first half of the year

Power supply was generally adequate to meet the demand in the PRC. There was a year-on-year increase of the rate of growth in power consumption of the whole society due to weak stabilisation of macro economy. Power consumption of the whole society was 2,775.9 billion kwh in aggregate, representing a year-on-year growth of 2.7% and 1.4 percentage points in growth rate compared with the same period of last year.

As of the end of June 2016, the power generation equipment of power plants nationwide with a installed capacity of 6,000 kw or above reached 1.52 billion kw, representing a growth of 1.2% at the beginning of the year, of which the installed capacity of thermal power was 1.02 billion kw, representing a growth of 3.0% and 1.2 percentage points in growth compared with the same period of last year. The growth rate of installed capacity of hydropower decreased significantly, and the installed capacity of wind power and nuclear power continued to maintain a faster growth rate.

In the first half of the year, thermal power generation and hydropower generation by power plants above the scale in the PRC amounted to 2,057.9 billion kwh and 481.1 billion kwh, respectively, down 3.1% and up 13.4% year-on-year, respectively. Influenced by factors such as the decelerated rate of growth in power demand nationwide, increased power generation by non-fossil energy and rapid growth rate in installed capacity of thermal power generating units, the utilisation hours of thermal power generators was 1,964 hours in the first half of the year, representing a year-on-year decrease of 194 hours. The average utilisation hours of hydropower generators represented a year-on-year increase of 146 hours.

For regional analysis, there are relatively excessive power supply in the northeastern and northwestern regions, while the overall power demand and supply in the northern region are balanced. Power supply was generally sufficient to meet the demand in central, eastern, and southern regions.

Prospects for the second half of the year

In the second half of the year, China's macro economy is expected to improve while maintaining stability, which will help stabilise power demand. Driven by economic transformation, power consumption of the tertiary industry and for domestic use will continue to maintain rapid growth. It is expected that the overall power consumption growth will represent a slight increase year-on-year.

In the second half of the year, the power supply nationwide will be adequate and the installed capacity of thermal power will continue to increase. It is expected that the nuclear power and wind power will maintain a rapid development, and the proportion of installed capacity and power generation will further increase.

It is expected that the overall power supply and demand on a nationwide basis will remain stable with a slight oversupply in the second half of the year, while the power consumption structure and the status of demand and supply divided by regions will remain relatively in line with that in the first half of the year. The effects of alternative power generation by non-fossil energy further emerge due to the decelerated growth rate in power demand and the abundant supply of thermal power. It is expected that the utilisation hours of thermal equipment throughout the year will continue to represent a year-on-year downward trend.

(II) Status of Accomplishment of 2016 Business Targets

		Accomplishment in the first half of 2016	Target of 2016 (Before Adjustment)	Target of 2016 (After Adjustment)
Commercial coal production	100 million tonnes	1.397	2.8	2.8
Coal sales	100 million tonnes	1.863	3.4	3.55
Total Power output dispatch	billion kwh	103.90	211.40	211.40
Revenue	RMB100 million	787.23	1,451	1,560
Cost of sales	RMB100 million	521.88	1,138	1,104
Selling, general and administrative expenses and net finance costs	RMB100 million	73.35	140	150
Amount of change in unit production cost of the self-produced coal	/	Year-on-year decrease of 10.8%	Equivalent to last year	Year-on-year decrease of approximately 5%

- Explanation:*
1. The above business targets are subject to risks, uncertainties and assumptions. The actual outcome may differ materially from these statements. Such statements do not constitute commitments to investors. Investors should be aware that undue reliance on or use of such information may lead to investment risks.
 2. Upon the approval from the eighteenth meeting of the third session of the board of directors of the Company, the Company has made adjustments to the 2016 business targets in accordance with the industry policies, the market environment and its operations.

(III) Completion of Capital Expenditures Plans for 2016

Unit: RMB'00 million

	Plans for 2016 (After Adjustment)	Accomplishment in the first half of 2016	Percentage of Accomplishment (%)
1. Coal segment	21.2	10.2	48.1
2. Power segment	207.5	52.7	25.4
3. Transportation segments	44.5	16.4	36.9
4. Coal chemical segment	1.8	0.9	50.0
Total	275.0	80.2	29.2

The total capital expenditure of the Group in the first half of 2016 amounted to RMB8.02 billion, which was mainly used for, inter alia, Luoyuan Bay Power Plant of Shenhua Fujian, Shenhua Guohua Shandong Shouguang Power Plant and other power generation projects as well as the construction of Huanghua South-Dagjiawa Rail Line and Phase III of Huanghua Port.

Upon the approval at the eighteenth meeting of third session of the board of directors of the Company, the total amount of the capital expenditure plans of the Group for 2016 has been increased to RMB27.5 billion.

The capital expenditure plans of the Group in 2016 are subject to the development of business plans (including potential acquisitions), progress of investment projects, market conditions, outlook for future operation environment and the obtaining of the requisite permissions and approval documents. Unless required by laws, the Company shall not assume any responsibilities for updating the data of its capital expenditure plans. The Company intends to finance its capital expenditures by cash generated from operating activities, short-term and long-term borrowings, and other debt and equity financing.

(IV) Significant events

Purchase, sale or redemption of securities of the Company

For the six months ended 30 June 2016, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's securities (as provided under the Hong Kong Listing Rules).

Corporate governance

The Company has adopted the corporate governance polices as set out in Appendix 14 of the Hong Kong Listing Rules. The Company and all directors have been in full compliance with all the principles and provisions and most of the recommended best practices as specified therein during the six months ended 30 June 2016.

Securities transactions of directors and supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as provided in Appendix 10 of the Hong Kong Listing Rules, requiring all securities transactions of the Company's directors be made in accordance with the Model Code. The system also applies to the supervisors and the senior management of the Company.

The Company has made specific enquiries, and all directors and supervisors have confirmed that they had fully complied with the Model Code for the six months ended 30 June 2016.

Other than the working relationships within the Company, none of the directors, supervisors or senior management had any financial, business or family relationship or any relationship in other material aspects with each other.

Other than their own service contracts, none of directors or supervisors had any actual personal interest, directly or indirectly, in any material contracts made by the Company or any of its subsidiaries in the first half of 2016.

Audit committee

The Company has appointed independent non-executive directors and established an Audit Committee in accordance with the Hong Kong Listing Rules. As at the end of the reporting period, the Audit Committee of the board comprises Mr. Gong Huazhang (chairman of the Audit Committee of the board, with professional qualifications and experience in accounting and other fields of financial management), Ms. Fan Hsu Lai Tai, Mr. Guo Peizhang and Mr. Chen Hongsheng. On 16 August 2016, the Audit Committee reviewed the Company's interim financial report for the six months ended 30 June 2016 and approved submission of the interim financial report to the board for approval.

Changes in directors, supervisors and senior management of the Company

Name	Position	Change	Reason
Li Dong	Executive Director	Election	Elected at the annual general meeting on 17 June 2016
Zhao Jibin	Non-executive Director	Election	Elected at the annual general meeting on 17 June 2016
Zhou Dayu	Shareholder representative supervisor	Election	Elected at the annual general meeting on 17 June 2016
Zhang Jiming	Vice President	Appointment	Approved at the seventeenth meeting of the third session of the Board on 1 July 2016
Wu Xiuzhang	Vice President	Resignation	Resignation tendered on 23 March 2016 due to adjustments to work arrangements
Tang Ning	Shareholder representative supervisor	Resignation	Resignation tendered on 17 June 2016 for the reason of age

Subsequent event

After 30 June 2016, there is no occurrence of any significant event that may affect the Group.

(V) Definitions

Shenhua Group Corporation	Shenhua Group Corporation Limited
Shenhua Group	Shenhua Group Corporation Limited and its subsidiaries
China Shenhua/the Company	China Shenhua Energy Company Limited
The Group	The Company and its subsidiaries
Zhunchi Railway	Shenhua Zhunchi Railway Company Limited
Shenhua Trading Group	Shenhua Trading Group Limited
Tianjin Coal Dock	Shenhua Tianjin Coal Dock Co., Ltd.
Zhuhai Coal Dock	Shenhua Yudean Zhuhai Port Coal Dock Co., Ltd.
Shenhua Finance Company	Shenhua Finance Co., Ltd.
EMM Indonesia	PT.GH EMM INDONESIA
Yuyao Power	Zhejiang Guohua Yuyao Gas-fired Power Co., Ltd.
Beijing Gas	Shenhua Guohua (Beijing) Gas Thermal Power Co., Ltd.
JORC	Australasian Code for Reporting of Mineral Resources and Ore Reserves
Shanghai Stock Exchange	Shanghai Stock Exchange

Hong Kong Stock Exchange or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
International Financial Reporting Standards	International Financial Reporting Standards issued by the International Accounting Standards Committee
EBITDA	Profit for the period + net finance costs + income tax expense + depreciation and amortisation – share of results of associates
RMB	Renminbi unless otherwise specified

By order of the Board
China Shenhua Energy Company Limited
Huang Qing
Secretary to the Board of Directors

Beijing, 26 August 2016

As at the date of this announcement, the Board comprises the following: Dr. Zhang Yuzhuo, Dr. Ling Wen, Mr. Han Jianguo and Dr. Li Dong as executive directors, Mr. Chen Hongsheng and Mr. Zhao Jibin as non-executive directors, and Ms. Fan Hsu Lai Tai, Mr. Gong Huazhang and Mr. Guo Peizhang as independent non-executive directors.