



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

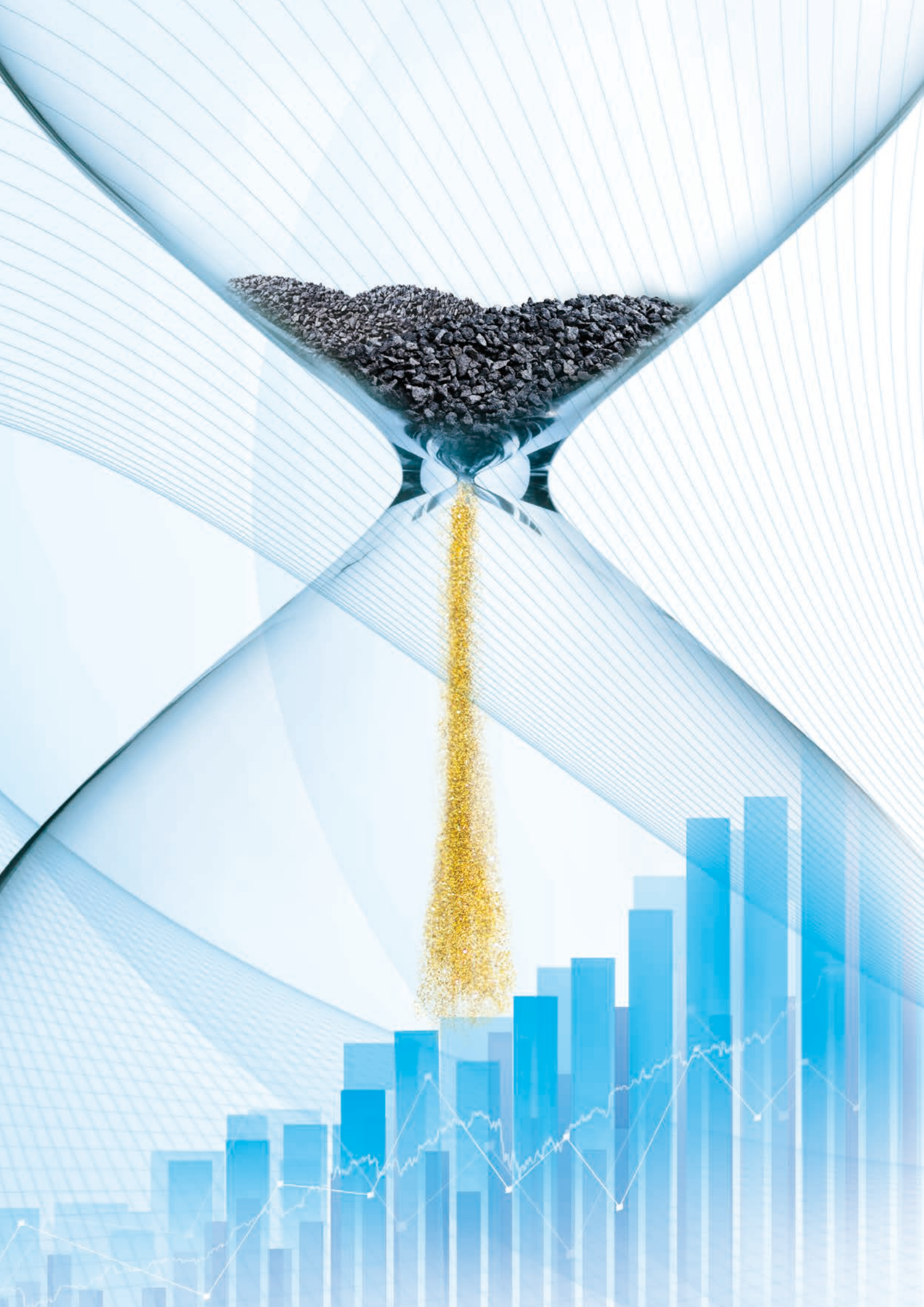
(a joint stock limited company incorporated in the
People's Republic of China with limited liability)

Stock Code: 01088

2016
INTERIM REPORT

COAL SUPPLY-SIDE REFORM





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Important Notice

- I. The board of directors, supervisory committee and directors, supervisors and senior management of the Company warrant that this interim report does not contain any misrepresentations, misleading statements or material omissions, and are jointly and severally liable for the authenticity, accuracy and completeness of the information contained in this report.
- II. This report was approved at the eighteenth meeting of the third session of the board of directors of the Company, all directors of the Company were present at the meeting.
- III. The interim financial statements in this interim report is unaudited. Deloitte Touche Tohmatsu has issued a report on the review of the interim financial statements for 2016 prepared under the International Financial Reporting Standards by the Company.
- IV. Zhang Yuzhuo, Chairman of the Company, Zhang Kehui, Chief Financial Officer, and Xu Shancheng, General Manager of the Financial Department of the Company, warrant the authenticity, accuracy and completeness of the financial statements contained in this interim report.
- V. Profit distribution plan or reserve funds capitalisation plan for the reporting period considered by the board of directors: not applicable
- VI. The forward-looking statements in this report made on the basis of subjective assumptions and judgments on future policies and economic conditions, which are subject to risks, uncertainties and assumptions, and may differ materially from the actual outcome. Such statements do not constitute actual commitments to investors. Investors should be aware that undue reliance on or use of such information may lead to risks of investment.
- VII. Are there any situations of non-operating appropriation of funds by controlling shareholder(s) and its related parties? No
- VIII. Are there any situations of violation of decision-making procedures for external guarantee provision? No
- IX. Details for the restatement: in Oct 2015, the Company completed the acquisition of 100% equity interests in Ningdong Power, 100% equity interests in Xuzhou Power and 51% in Zhoushan Power held by Shenhua Group Corporation by way of business merger under common control. The financial and business data in 2015 have been restated herein.

Definitions

Unless the context otherwise requires, the following terms used herein shall have the following meanings:

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
Shendong Coal Group Corporation	Shenhua Shendong Coal Group Co., Ltd.
Shendong Power Company	Shenhua Shendong Power Co., Ltd.
Zhunge'er Energy Company	Shenhua Zhunge'er Energy Co., Ltd.
Zhunchi Railway	Shenhua Zhunchi Railway Company Limited
Shuohuang Railway Company	Shuohuang Railway Development Co., Ltd.
Shenhua Trading Group	Shenhua Trading Group Limited
Huanghua Harbour Administration Company	Shenhua Huanghua Harbour Administration Co., Ltd.
Baoshen Railway Company	Shenhua Baoshen Railway Co., Ltd.
Xinzhun Railway Company	Shenhua Xinzhun Railway Co., Ltd.
Baotou Energy Company	Shenhua Baotou Energy Co., Ltd.
Baotou Coal Chemical Company	Shenhua Baotou Coal Chemical Co., Ltd.
Shenbao Energy Company	Shenhua Baorixile Energy Co., Ltd.
Beidian Shengli Energy	Shenhua Beidian Shengli Energy Co., Ltd.
Tianjin Coal Dock	Shenhua Tianjin Coal Dock Co., Ltd.
Zhuhai Coal Dock	Shenhua Yudean Zhuhai Port Coal Dock Co., Ltd.
Overseas Company	China Shenhua Overseas Development & Investment Co., Ltd.
Yu Shen Energy Company	Yulin Shenhua Energy Co., Ltd.

Definitions

Xinjie Energy Company	Shenhua Xinjie Energy Co., Ltd.
Shipping Company	Shenhua Zhonghai Shipping Co., Ltd.
Ganquan Railway Company	Shenhua Ganquan Railway Co., Ltd.
Shenwan Energy Company	Shenwan Energy Company Limited
Fujian Energy Company	Shenhua Fujian Energy Co., Ltd.
Shenhua Sichuan Energy Company	Shenhua Sichuan Energy Company Limited
Logistics Group	Shenhua Logistics Group Corporation Limited
Shenhua Finance Company	Shenhua Finance Co., Ltd.
Shenhua HK Company	Shenhua Hong Kong Limited
Geological Exploration Company	Shenhua Geological Exploration Co., Ltd.
Watermark	Shenhua Watermark Coal Pty Limited
EMM Indonesia	PT.GH EMM INDONESIA
Panshan Power	Tianjin Guohua Panshan Power Generation Co., Ltd.
Sanhe Power	Sanhe Power Co., Ltd.
Guohua Zhunge'er	Inner Mongolia Guohua Zhunge'er Power Generation Co., Ltd.
Zhunge'er Power	Power-generating division controlled and operated by Zhunge'er Energy Company
Zheneng Power	Zhejiang Guohua Zheneng Power Generation Co., Ltd.
Shenmu Power	CLP Guohua Shenmu Power Co., Ltd.
Taishan Power	Guangdong Guohua Yudean Taishan Power Co., Ltd.
Cangdong Power	Hebei Guohua Cangdong Power Co., Ltd.
Suizhong Power	Suizhong Power Co., Ltd.
Jinjie Energy	Shaanxi Guohua Jinjie Energy Co., Ltd.

Definitions

Dingzhou Power	Hebei Guohua Dingzhou Power Generation Co., Ltd.
Guohua Hulunbeier Power	Inner Mongolia Guohua Hulunbeier Power Generation Co., Ltd.
Taicang Power	Guohua Taicang Power Generation Co., Ltd.
Mengjin Power	Shenhua Guohua Mengjin Power Generation Co., Ltd.
Yuyao Power	Zhejiang Guohua Yuyao Gas-fired Power Co., Ltd.
Jiujiang Power	Shenhua Guohua Jiujiang Power Co., Ltd.
Zhuhai Wind Energy	Zhuhai Guohua Huidafeng Wind Energy Development Co., Ltd.
Huizhou Thermal	Guohua Huizhou Thermal Power Branch of the Company
Ningdong Power	Ningxia Guohua Ningdong Power Generation Co., Ltd.
Xuzhou Power	Guohua Xuzhou Power Generation Company Limited
Zhoushan Power	Shenhua Guohua (Zhoushan) Power Generation Co., Ltd.
Beijing Gas	Shenhua Guohua (Beijing) Gas Thermal Power Co., Ltd.
Jawa Company	Shenhua Guohua (Indonesia) Jawa Power Generation 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
Shanghai Listing Rules	Rules Governing the Listing of Stocks on Shanghai Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Accounting Standards for Business Enterprises	the latest Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and the related application guidance, interpretations and other related requirements

Definitions

International Financial Reporting Standards	International Financial Reporting Standards issued by the International Accounting Standards Committee
Articles of Association	Articles of Association of China Shenhua Energy Company Limited
EBITDA	Profit for the period + net finance costs + income tax expense + depreciation and amortisation – share of results of associates
Total debt to total equity ratio	$\frac{[\text{Long-term interest bearing debts} + \text{short-term interest bearing debts (including bills payable)}]}{[\text{Long-term interest bearing debts} + \text{short-term interest bearing debts (including bills payable)} + \text{total equity}]}$
Shanghai-Hong Kong Stock Connect	A mutual access mechanism between Shanghai and Hong Kong stock markets under which Shanghai Stock Exchange and Hong Kong Stock Exchange allow investors from Shanghai and Hong Kong to trade eligible shares listed on the other's market through local securities firms (or brokers), which comprises Shanghai Stock Connect and Hong Kong Stock Connect
RMB	Renminbi unless otherwise specified

Company Profile

I. INFORMATION OF THE COMPANY

Chinese Name of the Company	中國神華能源股份有限公司
Chinese Short Name of the Company	中國神華
English Name of the Company	China Shenhua Energy Company Limited
Abbreviation/English Short Name of the Company	CSEC/China Shenhua
Legal Representative of the Company	Zhang Yuzhuo
Authorised Representatives of the Company under the Hong Kong Listing Rules	Han Jianguo, Huang Qing

II. CONTACTS AND CONTACT INFORMATION

	Secretary to the Board of Directors	Representative of Securities Affairs
Name	Huang Qing	Chen Guangshui
Address	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)
Tel	(8610) 5813 3399	(8610) 5813 3355
Fax	(8610) 5813 1804/1814	(8610) 5813 1804/1814
E-mail	1088@shenhua.cc	ir@shenhua.cc

III. PARTICULARS

Registered Address of the Company	22 Andingmen Xibinhe Road, Dongcheng District, Beijing
Postal Code of Registered Address of the Company	100011
Office Address of the Company	22 Andingmen Xibinhe Road, Dongcheng District, Beijing
Postal Code of Office Address of the Company	100011
Hong Kong Office of the Company	Room B, 60th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong
Website of the Company	http://www.csec.com or http://www.shenhuachina.com
E-mail	ir@shenhua.cc

IV. INFORMATION DISCLOSURE AND PLACE FOR DOCUMENT INSPECTION

Newspapers Designated by the Company for Information Disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Internet Websites for Publishing Interim Reports	http://www.sse.com.cn and http://www.hkex.com.hk
Place for Inspection of Interim Reports	Office Address and Hong Kong Office of the Company

Company Profile

V. BASIC INFORMATION ON SHARES OF THE COMPANY

Type of Shares	Listing Place	Abbreviation	Stock Code
A Shares	Shanghai Stock Exchange	China Shenhua	601088
H Shares	Hong Kong Stock Exchange	China Shenhua	01088

VI. REGISTRATION

Date of Registration	2 February 2015
Place of Registration	Beijing Administration for Industry and Commerce
Registration Number of Corporate Business Licence	100000000039286
Tax Registration Number	Jing Shui Zheng Zi No. 110101710933024
Organisational Code	71093302-4

VII. OTHER RELEVANT INFORMATION

Auditor Employed by the Company (Domestic)	Name	Deloitte Touche Tohmatsu Certified Public Accountants LLP
	Address	8th Floor, Tower W2, The Towers, Oriental Plaza, 1 East Chang An Avenue, Beijing
	Signing Auditor	Xu Bin, Yu Chunhui
Auditor Employed by the Company (Overseas)	Name	Deloitte Touche Tohmatsu
	Address	35th Floor, One Pacific Place, 88 Queensway, Hong Kong

		A Shares/Domestic	H Shares/Hong Kong
Share Registrar and Transfer Office	Name	China Securities Depository and Clearing Corporation Limited Shanghai Branch	Computershare Hong Kong Investor Services Limited
	Address	3rd Floor, China Insurance Building, 166 Lu Jia Zhu Dong Lu, Pudong New Area, Shanghai	Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Highlight of Accounting Data and Financial Indicators

I. MAJOR ACCOUNTING DATA

	Unit	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)
Revenue	RMB million	78,723	90,001	(12.5)
Profit for the period	RMB million	14,810	18,013	(17.8)
Profit for the period attributable to equity holders of the Company	RMB million	10,827	13,419	(19.3)
Basic earnings per share	RMB/share	0.544	0.675	(19.3)
Net cash generated from operating activities	RMB million	38,207	32,189	18.7
Net cash generated from operating activities excluding Shenhua Finance Company	RMB million	48,181	23,121	108.4

	Unit	As at 30 June 2016	As at 31 December 2015	Change (%)
Total assets	RMB million	565,447	559,791	1.0
Total liabilities	RMB million	193,153	195,870	(1.4)
Total equity	RMB million	372,294	363,921	2.3
Equity attributable to equity holders of the Company	RMB million	302,669	298,068	1.5
Total share capital at the end of the period	RMB million	19,890	19,890	0.0
Equity attributable to equity holders per share	RMB/share	15.22	14.99	1.5

Highlight of Accounting Data and Financial Indicators

II. DIFFERENCES BETWEEN DOMESTIC AND INTERNATIONAL ACCOUNTING STANDARDS

Unit: RMB million

	Net profit attributable to equity holders of the Company		Net assets attributable to equity holders of the Company	
	This period	Same period last year (Restated)	As the end of the period	At the beginning of the period
Under China Accounting Standards for Business Enterprises	9,828	12,078	297,685	292,790
Adjustment:				
Simple production maintenance, safety production and other related expenditure	999	1,341	4,984	5,278
Under International Financial Reporting Standards	10,827	13,419	302,669	298,068

Explanation on differences in domestic and overseas accounting standards: Pursuant to the relevant regulations of the related government authorities in the PRC, the Group accrued provisions for simple production maintenance, safety production and other related expenditures, recognised as expenses in the period and separately recorded as specific reserve in equity attributable to owners. On utilisation of the specific reserve as fixed assets within the stipulated scope, the full amount of accumulated depreciation is recognised at the same time when the cost of the relevant assets is recorded. Under International Financial Reporting Standards, these expenses are recognised when incurred. Relevant capital expenditure is recognised as property, plant and equipment and depreciated according to the relevant depreciation method. The effect on deferred tax arising from such difference is also reflected.

Chairman's Statement



Zhang Yuzhuo
Chairman

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.

Chairman's Statement

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.

Chairman's Statement

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.

Chairman's Statement

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.

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.

Chairman's Statement

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.

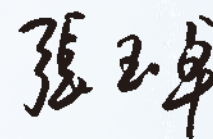
Keeping close tabs on project investment to achieve sustainable development. The Company will continue to step up the efforts on the investment analysis of projects under construction and to be constructed and risk assessment for project commencement. The Company will implement the investment strategy 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.

Chairman's Statement

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.



Zhang Yuzhuo
Chairman

26 August 2016

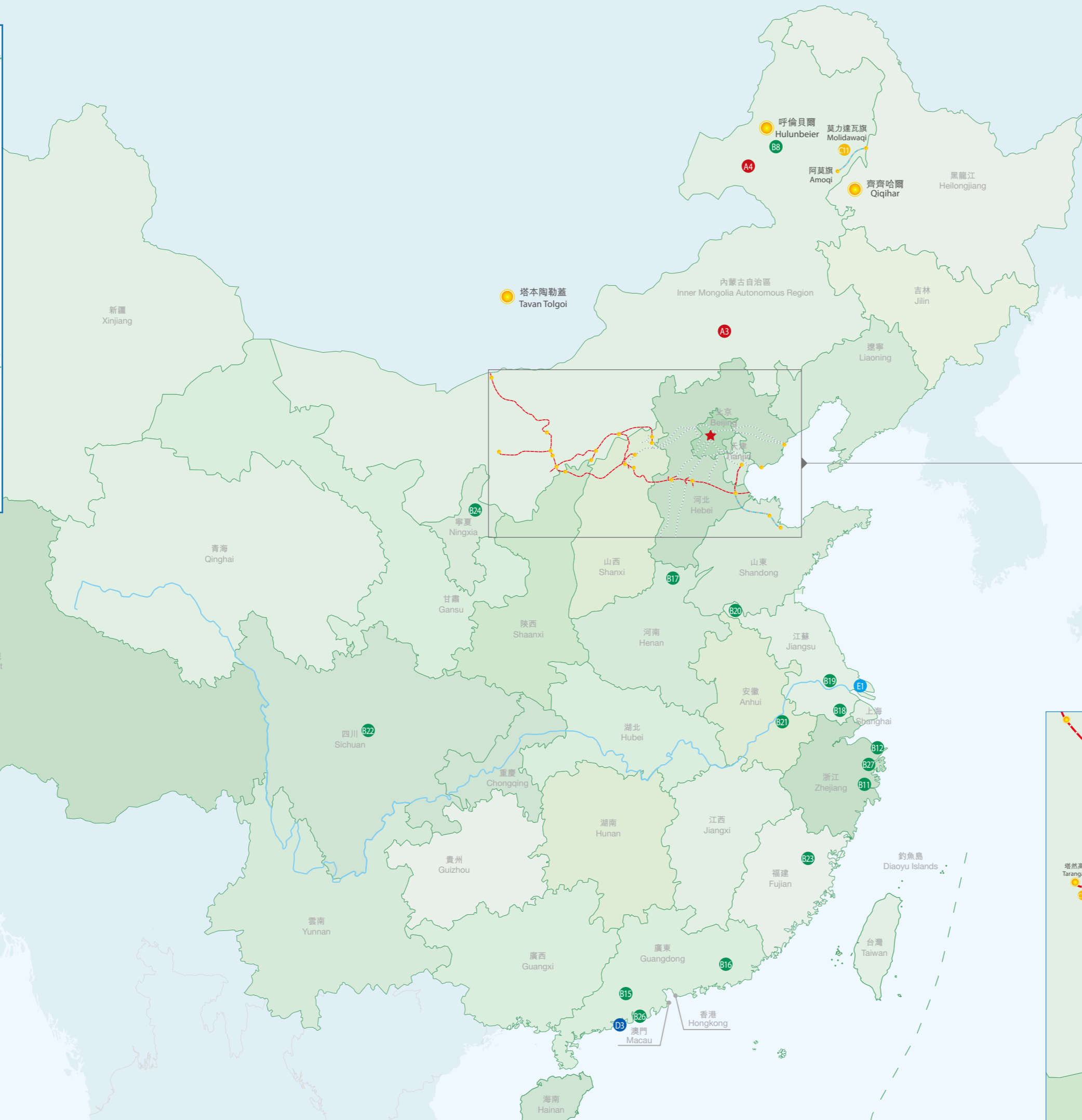


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Management Discussion and Analysis



- 圖例 Legend**
- 省界線
Provincial Boundary
 - 國有或地方鐵路線
State-owned or Local Railway
 - 自有運營鐵路
Self-owned Railway (in operation)
 - 自有在建鐵路
Self-owned Railway (under construction)
 - 自有礦區
Self-owned mines



- 煤礦 COAL MINE**
- A1. 神東礦區
Shendong Mines
 - A2. 准格爾礦區
Zhunge'er Mines
 - A3. 勝利礦區
Shengli Mines
 - A4. 寶日希勒礦區
Baorixile Mines
 - A5. 包頭礦區
Baotou Mines
 - A6. 澳大利亞沃特馬克煤礦項目 (規劃審看中)
Watermark Coal Project in Australia (plans under review)
 - A7. 新街台格廟勘查區 (前期工作階段)
Xinjietaijiaomiao Exploration Area (preliminary work in progress)

- 電廠 POWER**
- | | | | |
|-------------------------------|------------------------------------|---------------------------------|---------------------------------------|
| B1. 滄東電力
Cangdong Power | B8. 國華呼電
Guohua Hulubeier Power | B15. 台山電力
Taishan Power | B22. 神華四川能源
Shenhua Sichuan Energy |
| B2. 三河電力
Sanhe Power | B9. 北京燃氣
Beijing Gas Power | B16. 惠州熱電
Huizhou Thermal | B23. 神華福建能源
Shenhua Fujian Energy |
| B3. 定州電力
Dingzhou Power | B10. 綏中電力
Suizhong Power | B17. 孟津電力
Mengjin Power | B24. 寧東電力
Ningdong Power |
| B4. 盩厔電力
Panshan Power | B11. 浙能電力
Zheneng Power | B18. 大倉電力
Taicang Power | B25. 兩蘇EMM
EMM Nansu |
| B5. 准能電力
Zhunge'er Power | B12. 舟山電力
Zhoushan Power | B19. 陳家港電力
Chenjiagang Power | B26. 珠海風能
Zhuhai Wind |
| B6. 神東電力
Shendong Power | B13. 錦界能源
Jinjie Energy | B20. 徐州電力
Xuzhou Power | B27. 余姚電力
Yuyao Power |
| B7. 國華准格爾
Guohua Zhunge'er | B14. 神木電力
Shenmu Power | B21. 神皖能源
Shenwan Energy | |

- 鐵路 RAILWAY**
- C1. 神朔鐵路
Shenshuo Railway
 - C2. 朔黃鐵路
Shuohuang Railway
 - C3. 黃萬鐵路
Huangwan Railway
 - C4. 大准鐵路
Dazhun Railway
 - C5. 包神鐵路
Baoshen Railway
 - C6. 巴准鐵路
Bazhun Railway
 - C7. 甘泉鐵路
Ganquan Railway
 - C8. 准池鐵路
Zhunchi Railway
 - C9. 黃大鐵路 (在建)
Huangda Railway (under construction)
 - C10. 塔韓鐵路
Tahan Railway
 - C11. 阿莫鐵路 (在建)
Amo Railway (under construction)

- 港口 PORT**
- D1. 黃驊港
Huanghua Port
 - D2. 天津煤碼頭
Tianjin Coal Dock
 - D3. 珠海煤碼頭
Zhuhai Coal Dock

- 航運 SHIPPING**
- E1. 神華中海航運
Shenhua Zhonghai Shipping Company

- 煤化工 COAL CHEMICAL**
- F1. 包頭煤化工
Baotou Coal Chemical

註：於2016年6月30日之分佈圖，僅供示意。
Note: This map as at 30 June 2016 is for illustrative purpose only.



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

Note: Please refer to the part of "Definitions" of this report for the calculations of the above indicators.

Management Discussion and Analysis

(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.

Management Discussion and Analysis

(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)

Management Discussion and Analysis

(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.

Management Discussion and Analysis

- (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.

Management Discussion and Analysis

(5) Investment in research and development

Expensed research and development expenditure in the period (RMB million)	126
Capitalized research and development expenditure in the period (RMB million)	65
Total research and development expenditure (RMB million)	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 (number of person)	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. Others

(1) 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.

(2) Analysis on the progress of financing and major asset restructuring matters of the Company

Not Applicable.

(3) Elaboration on the Company's progress of operation plans

Please refer to "Status of accomplishment of 2016 business targets" of this section.

Management Discussion and Analysis

(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
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 businesses

Management Discussion and Analysis

(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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

① By source of coal and sales regions

	In the first half of 2016			In the first half of 2015 (restated)			Change	
	Sales volume	Proportion of total sales	Price	Sales volume	Proportion of total sales	Price	Sales volume	Price
	million tonnes	%	RMB/tonne	million 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 tonnes	%	RMB/tonne	million 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.

Management Discussion and Analysis

(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.

At the end of the first half of 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)
Shendong 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

Management Discussion and Analysis

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	

Management Discussion and Analysis

- 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	Costs	Gross profit	Gross profit margin	Revenue	Costs	Gross profit	Gross profit margin
	RMB million	RMB million	RMB million	%	RMB million	RMB million	RMB million	%
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%.

Management Discussion and Analysis

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 2016	In the first half of 2015 (Restated)	Change (%)	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)
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

Management Discussion and Analysis

② Classified by operating area

Location/ Type of power	Power generation (billion kwh)			Power output dispatch (billion kwh)			Power tariff (RMB/mwh)
	First half of 2016	First half of 2015 (Restate)	Change (%)	First half of 2016	First half of 2015 (Restate)	Change (%)	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

Management Discussion and Analysis

Location/ Type of power	Power generation (billion kwh)			Power output dispatch (billion kwh)			Power tariff (RMB/mwh)
	First half of 2016	First half of 2015 (Restate)	Change (%)	First half of 2016	First half of 2015 (Restate)	Change (%)	First half of 2016
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
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 kw¹ 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 hours² 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.

¹ Source: China Electricity Council

² Source: China Electricity Council

Management Discussion and Analysis

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 (Restated)	Change (%)	In the first half of 2016	In the first half of 2015 (Restated)	Change
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	

Management Discussion and Analysis

- 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				
	In the first half of 2016	In the first half of 2015 (Restated)	Change (%)	In the first half of 2016	Percentage to costs of sale of power in the first half of 2016 (%)	In the first half of 2015 (Restated)	Percentage to costs of sale of power in the first half of 2015 (%)	Change in the first half of 2016 over the 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	
	RMB million	%	RMB million	%	%
Materials, 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)).

Management Discussion and Analysis

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 materials, 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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
	Thousand tonnes	RMB/ tonne	Thousand tonnes	RMB/ tonne	%	%
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	

Management Discussion and Analysis

(3) Unit production cost of main products

	In the first half of 2016		In the first half of 2015 (Restated)		Change (%)	
	Production volume	Unit production cost	Production volume	Unit production cost	Production volume	Unit production cost
	Thousand tonnes	RMB/ tonne	Thousand tonnes	RMB/ tonne	%	%
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.

Management Discussion and Analysis

(V) 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%.

(VI) Technological Innovation

The Group has augmented the industrial technologies and technological capabilities in an on-going manner. The smart green coal mining and the production safety technologies of the Company enjoy a leading position globally. Its technologies such as the clean and highly-efficient coal-fired power generation and heavy-loaded railway transportation are among leading positions in the PRC. The operations model that integrates scientific decision-making, system management, research and development and commercialization of achievements and the technological innovation-driven development model have been preliminarily established, which in turn crystalizing into various technological innovative brands such as “Digital Mines”, “Protection and Utilisation of Mine Water”, “Ultra-low Emission”, “Heavy-loaded Railway Transportation” and “Large-scale Coal-to-olefins Production”.

During the reporting period, the Group obtained 342 patents, 108 of which were invention patents. A total of 3,571 patents were obtained, 1,195 of which were invention patents.

(VII) Analysis of Core Competitiveness

There were no substantial changes in the core competitiveness of the Company during the reporting period.

The core competitiveness of the Group mainly includes: (1) the integration operations model of coal, power railway port and shipping with in-depth cooperation, resources sharing, synergies and low-cost operations; (2) premium and abundant coal resources; (3) a management team with the dedication to the principal business of the Company and an advanced operations philosophy; (4) leading industrial technologies and technological innovation capabilities in China and overseas in areas including coal mining, production safety, clean coal-fired power generation and heavy-loaded railway transportation; (5) commencement of work (submitting the asset acquisition plans to the internal competent authorities of China Shenhua for approval) for the acquisition of 14 assets of Shenhua Group and its subsidiaries by the Company by 30 June 2019 pursuant to the Non-competition Agreement entered into by and between the Company and Shenhua Group, its the controlling shareholder.

Management Discussion and Analysis

(VIII) Analysis of Investments

1. Overall Analysis of External Equity Investments

In the first half of 2016, equity investments of the Company amounted to RMB891 million, a decrease of RMB1,650 million or 64.9% as compared with that of RMB2,541 million in the same period of last year. The equity investments mainly comprise investments in Jawa Company, and the increase in the shareholding of Yu Shen Energy Company, Shendong Power Company and Geological Exploration Company.

For the principal businesses of the major subsidiaries of the Company and its shareholdings, please refer to the equities in other entities of notes 7 to the interim financial statements of 2016 prepared by the Company in accordance with China Accounting Standards for Business Enterprises.

(1) Investments in Securities

Applicable Not applicable

(2) Shareholdings in Other Listed Companies

Applicable Not applicable

(3) Shareholdings in Financial Enterprises

Applicable Not applicable

2. Investments in Entrusted Wealth Management and Derivatives of Non-financial Companies

(1) Entrusted Wealth Management

Applicable Not applicable

(2) Entrusted Loans

Applicable Not applicable

Unit: RMB million

Borrower	Balance of entrusted loans	Maturity	Interest rate	Use of proceeds	Collaterals or guarantor	Whether it is expired	Whether it is a connected transaction	Whether the term is extended	Whether legal proceeding involved	Source of funds and whether it is part of raised proceeds	Connected relationship	Expected gains	Gain or loss from investment
Inner Mongolia Sanxin Railway Co., Ltd. ("Sanxin Railway Company")	37.4	1 year	6%	Working capital	Nil	Yes	No	No	No	No	N/A	0	0
Inner Mongolia Yili Chemical Industry Co., Ltd.	626.6	10 years	4.9%	Replacement of bank loans	Pledged	No	No	No	No	No	N/A	47.4	16.2

Note: The entrusted loans provided by the Company to Sanxin Railway Company was due and outstanding in February 2015, and both parties are under negotiation in respect of the subsequent relevant matters

Management Discussion and Analysis

Details of the entrusted loans: as of 30 June 2016, the Group did not grant entrusted loans with an amount exceeding 10% of the Group's latest audited net assets to any single party. The Company did not utilize the proceeds raised to grant entrusted loans, nor litigation involved. Under centralised capital management of the Group, the entrusted loans were provided to subsidiaries which were short of funds to meet operating and development needs. The part of entrusted loans has been offset in the consolidated financial statements of the Group.

(3) Other investments in wealth management and derivatives

Applicable Not applicable

The target of the foreign exchange swaps conducted by the Company was JPY-denominated loans. Such swaps were conducted for the purpose of hedging instead of gaining investment returns. All the implementation plans were consistent with the nature of hedging and the risks were controllable.

As of 30 June 2016, the balance of the JPY-denominated loans hedged by the Company amounted to RMB1,310 million and was part of all JPY-denominated loans of the Company. During the reporting period, the gain from the changes in the fair value of the above swap contracts amounted to RMB11 million. The Company was not involved in any lawsuit in connection with the swaps transactions.

3. *Utilization of Proceeds*

Applicable Not applicable

Management Discussion and Analysis

4. Analysis on major subsidiaries

(1) Major subsidiaries

Unit: RMB million

No.	Company	As at 30 June 2016			Net profit attributable to the equity holders of the parent company			
		Registered capital	Total assets	Net assets	The first half of 2016	The first half of 2015 (restated)	Change (%)	Main reason for the change
1	Shuohuang Railway Company	5,880	35,823	28,908	3,306	2,362	40.0	Increase in the turnover of railway transportation
2	Shendong Coal Group Corporation	4,690	22,796	11,955	1,416	2,269	(37.6)	Decrease in coal prices and sales volume
3	Shenhua Trading Group	1,889	27,771	5,311	928	(367)	(352.9)	Sales model was changed from the buyout model to agency model
4	Zheneng Power	3,255	11,602	6,798	846	1,016	(16.7)	Decrease in the power tariff and the power output dispatch
5	Jinjie Energy	2,278	9,011	7,030	623	1,157	(46.2)	Decrease in the power tariff and the power output dispatch
6	Huanghua Harbour Administration Company	6,790	16,049	8,749	600	146	311.0	Increase in the operations at the port
7	Taishan Power	4,670	12,548	8,377	585	1,052	(44.4)	Decrease in the power output dispatch and power tariff
8	Shenwan Energy Company	4,696	13,019	8,252	523	442	18.3	Increase in the installed capacity and the power output dispatch
9	Dingzhou Power	1,561	6,196	3,529	519	626	(17.1)	Decrease in the power tariff and the power output dispatch
10	Cangdong Power	1,834	7,157	3,458	428	623	(31.3)	Decrease in the power tariff and the power output dispatch

- Note:*
- The financial information of the major subsidiaries disclosed in the above table was prepared in accordance with the Accounting Standards for Business Enterprises. The data have not been assessed, audited or reviewed.
 - Shuohuang Railway Company recorded a revenue of RMB8,423 million and a profit from operations of RMB4,291 million in the first half of 2016.
 - Shendong Coal Group Corporation recorded a revenue of RMB14,573 million and a profit from operations of RMB1,631 million in the first half of 2016.

Details regarding the Company's acquisition of subsidiaries are set out in the equities in other entities of notes 7 to the interim financial statements of 2016 prepared by the Company in accordance with China Accounting Standards for Business Enterprises

Management Discussion and Analysis

(2) Shenhua Finance Company

As of the end of the reporting period, the Company directly and indirectly held 100% equity interest in Shenhua Finance Company

No.	Name of Shareholder	Percentage of shareholding (%)
1	China Shenhua Energy Company Limited	81.43
2	Shuohuang Railway Development Co., Ltd.	7.14
3	Shenhua Zhunge'er Energy Co., Ltd.	7.14
4	Shenhua Baoshen Railway Co., Ltd.	4.29
	Total	100.00

During the reporting period, Shenhua Finance Company strictly implemented the following resolutions passed at the 12th meeting of the second session of the Board of China Shenhua held on 25 March 2011: (1) China Shenhua currently had no intention or plan to change the existing operation policies and strategies of Shenhua Finance Company; (2) the deposits placed by China Shenhua and its subsidiaries and branches with Shenhua Finance Company would be used solely for the credit business of China Shenhua and its subsidiaries and branches, and would be deposited in the People's Bank of China and the five major commercial banks (namely, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications), and would not be invested in the public market/private equity market and real estate, etc.

For the unaudited balance sheet and income statement of Shenhua Finance Company for the first half of 2016, please refer to the announcement of the Company dated 14 July 2016

5. *Projects Not Using Raised Proceeds*

Applicable Not applicable

(IX) Other

For charge over assets, borrowings at the end of the period and the repayment on maturity and contingent liabilities, please refer to the notes 12, 19 and 27 to this financial statement. No significant differences between the risk relating to fluctuations in foreign exchange and its relevant hedging measures and that disclosed in the notes to the 2015 financial statement.

Management Discussion and Analysis

II. DISCUSSION AND ANALYSIS ON THE 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

(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:*
- 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.
 - 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

Management Discussion and Analysis

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.

III. PROPOSAL FOR PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL SURPLUS

(I) Implementation of and Adjustment to Profit Distribution Plan During the Reporting Period

The distribution of the 2015 final dividend of RMB0.32 per Share (tax inclusive) to all Shareholders was approved at the 2015 annual general meeting of the Company on 17 June 2016, with the total distribution of RMB6,365 million (tax inclusive). The above final dividends were distributed in July 2016. The distribution of final dividends is in compliance with the requirements set forth in the resolution of the general meeting.

(II) Proposal for the Interim Profit Distribution Plan and Conversion of Capital Surplus

Whether to distribute profit or convert capital surplus	No
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IV. OTHER DISCLOSURE

(I) Warning and Explanation of Anticipated Loss from Cumulative Net Profit from the Beginning of the Year to the End of the Next Reporting Period or Significant Changes over the Same Period of Last Year

Applicable Not applicable

(II) Explanation of the Board of Directors and Supervisory Committee on the “Non-standard Audit Report” Issued by the Accountant

Applicable Not applicable

Significant Events

I. MATERIAL LITIGATION, ARBITRATION AND MATTERS NORMALLY QUESTIONED BY THE MEDIA

Applicable Not applicable

As at the end of the reporting period, the Group was not involved in material litigation and arbitration. As far as the Group was aware, the Group had no material litigation or claim against it which was pending, imminent or ongoing. As at 30 June 2016, the Group was the defendant or a party to certain non-material litigations or arbitrations. The management of the Group believes that any possible legal liability which may arise from the aforesaid cases will not have material impact on the financial position of the Group. The Group was not involved in matters normally questioned by the media.

II. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

Applicable Not applicable

III. ASSET TRANSACTIONS AND CORPORATE MERGERS

Applicable Not applicable

IV. EQUITY INCENTIVE PLAN OF THE COMPANY AND ITS IMPACT

Applicable Not applicable

V. DETAILS OF THE CREDITABILITY OF THE COMPANY AND ITS SHAREHOLDERS AND DE FACTO CONTROLLER

Upon the internal investigation, as at the end of the reporting period, there had been no failure in fulfilling the valid court judgments by the Company and Shenhua Group Corporation or relatively large amount of long-outstanding debts thereof that fell due such as the overdue interests payable to external financial institutions.

VI. MATERIAL CONNECTED TRANSACTIONS

Applicable Not applicable

(I) Connected transactions in the ordinary course of business

Pursuant to the requirements under the Guidelines of Shanghai Stock Exchange on Connected Transactions of Listed Companies, the Audit Committee of the board of directors of the Company shall perform the duties of control and daily management of connected transactions of the company. The Company has a connected transaction working team under the direct leadership of the Chief Financial Officer, which is responsible for the management of connected transactions; the Company has established procedural rules which properly delineate the responsibilities of the Company, its subsidiaries and branches in the management of connected transactions. Routine examinations, reporting systems and accountability systems have been formulated in the subsidiaries and branches of the Company.

The annual caps, status and major daily connected/continuing connected transactions during the reporting period disclosable by the Group during the Reporting Period are set out as below (using the agreement no. in the 2015 annual report). Details such as the purpose of the agreement, transaction particulars and pricing principle are the same as those disclosed in the 2015 annual report. During the reporting period, there had been no adjustments made to the annual caps.

Significant Events

In particular, the connected transactions regarding the provision of products and labor services by the Group to Shenhua Group amounted to RMB4,463 million during the reporting period, accounting for 5.7% of the Group's revenue during the reporting period.

Agreement no.	Name of the agreement	Provision of products and services by the Group to connected parties/persons and other inflows			Purchase of products and services from connected parties/persons by the Group and other outflows		
		Prevailing annual cap	Transaction amount during the reporting period	Percentage of amount of similar transactions	Prevailing annual cap	Transaction amount during the reporting period	Percentage of amount of similar transactions
		RMB million	RMB million	%	RMB million	RMB million	%
A	Mutual Coal Supply Agreement between the Company and Shenhua Group Corporation	34,800	1,993	5.0	38,400	2,261	32.7
B	Mutual Supply of Products and Services Agreement between the Company and Shenhua Group Corporation	22,300	2,470	-	12,400	950	-
	Including: (1) Products		2,405	7.1		379	0.2
	(2) Labor services		65	2.2		571	6.4
D	Transportation Service Framework Agreement between the Company and Taiyuan Railway Bureau	-	-	-	12,400	1,979	42.2

Significant Events

No.	Name of the agreement	Financial service	Prevailing annual cap	Transaction amount during the reporting period
			RMB million	RMB million
C	Financial Services Agreement between the Company and Shenhua Group Corporation	1. Annual total transaction amount of bill acceptance and discount services handled by Shenhua Finance Company for Shenhua Group Corporation, the subsidiaries of Shenhua Group and the associates of Shenhua Group Corporation (excluding the Group) ("Shenhua Group and its associates")	26,000	–
		2. Maximum daily balance (including interests accrued thereon) of deposits placed by Shenhua Group and its associates with Shenhua Finance Company	104,000	14,728
		3. Maximum daily balance of loans, consumption credit, buyer's credit and financial leasing (including interests accrued thereon) granted by Shenhua Finance Company to Shenhua Group and its associates	71,500	15,003
		4. Daily balance (including interests accrued thereon) of entrusted loans granted by Shenhua Group to the Group through Shenhua Finance Company	78,000	3,658
		5. Annual total fee charge by Shenhua Finance Company for providing the Shenhua Group and associates of Shenhua Group Co. with consultancy, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan and other services	520	31

The above continuing connected transactions were settled in cash and carried out in the ordinary course of business of the Company, and were in strict compliance with the procedures of review and approval by independent non-executive directors and independent shareholders as well as disclosure.

(II) Connected transactions regarding asset acquisition and sales

Applicable Not applicable

Significant Events

(III) Material connected transactions regarding joint external investments

Summary of the transaction	Index of disclosure
On 24 March 2016, the Resolution on the Establishment of Shenhua Ningxia Guohua Ningdong Power Generation Co., Ltd. by way of Joint Venture was considered and approved at the fifteenth meeting of the third session of the Board of the Company, pursuant to which, it was approved that China Shenhua shall establish Shenhua Guohua Ningdong Power Generation Co., Ltd. (a tentative name subject to the industrial and commercial registration) with Zhejiang Provincial Energy Group Co., Ltd. and Shenhua Ningxia Coal Industry Co., Ltd. by way of joint venture. In particular, China Shenhua shall make capital contribution of RMB227.08 million for 56.77% equity interests. The above joint venture agreement was executed on 20 July 2016.	For details, please refer to the Announcement on the Resolutions of the Fifteenth Meeting of Third Session of the Board of the Company on 25 March 2016 and Announcement on the Connected Transaction (H Shares) on 20 July 2016.

(IV) Debts and liabilities between connected parties

Unit: RMB million

Connected party	Connected relationship	Funds provided to connected parties			Funds provided by connected parties to the listed company		
		Opening balance	Amount incurred	Closing balance	Opening balance	Amount incurred	Closing balance
Shenhua Group Corporation and its subsidiaries	Controlling shareholders and its subsidiaries	0	0	0	7,423	(1,818)	5,605
Other connected parties	Others	700	0	700	0	0	0
Total		700	0	700	7,423	(1,818)	5,605
Amount of funds provided by the Company to the controlling shareholder and its subsidiaries during the reporting period		0					
Balance of funds provided by the Company to the controlling shareholder and its subsidiaries		0					
Reasons for debts and liabilities due from or to connected parties		The amount and balance of the above debts and liabilities only include prepaid expenses and other current assets, borrowings and other non-current assets of a non-operational nature between the Group and connected parties. The above debts and liabilities mainly comprise entrusted loans provided by the Group to the associates through the bank as well as the short and long term borrowings obtained by the Group from Shenhua Group Corporation and its subsidiaries. Internal decision-making procedures in this regard have been conducted in accordance with relevant requirements.					
Repayment of debts and liabilities due from or to connected parties		N/A					
Undertakings related to debts and liabilities due from or to connected parties		N/A					
Impacts of debts and liabilities due from or to connected parties on the operating results and financial position of the Company		For the above entrusted loans and borrowings, the principals and interests are being repaid as usual according to the repayment schedule.					

Significant Events

VII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. Trust, contracting and leasing

Applicable Not applicable

2. Guaranting

Applicable Not applicable

Unit: RMB million

Guarantee provided by the Company and its subsidiaries to external parties (excluding the guarantee to its subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Party guaranteed	Amount guaranteed	Date of provision of guarantee (execution date of agreement)	Commencement date of guarantee	Expiry date of guarantee	Type of guarantee	Whether performance has been completed	Whether the guarantee expired	Amount of guarantee expired	Whether counter-guarantee provided	Whether the guarantee is for the benefit of connected parties	Connected relationship
Shenbao Energy Company	Guarantor is a subsidiary of the Company	Hulunbeier Liangyi Railway Company Limited	109.87	2008.8.30	2008.8.30	2029.8.29	Joint and several liability guarantee	No	No	N/A	No	No	N/A
Total amount of guarantee provided during the reporting period (excluding guarantee for subsidiaries)													(1.61)
Total balance of guarantee at the end of the reporting period (A) (excluding guarantee for subsidiaries)													109.87
Guarantee provided by the Company and its subsidiaries for the benefit of its subsidiaries													
Total amount of guarantee provided for the benefit of subsidiaries during the reporting period													163.97
Total balance of guarantee provided for the benefit of subsidiaries at the end of the reporting period (B)													10,652.57
Total amount of guarantee provided by the Company (including guarantee for the benefit of its subsidiaries)													
Total amount of guarantee(A+B)													10,762.44
Percentage of total amount of guarantee to net assets of the Company (%)													4.3
Including:													
Amount of guarantee provided for the benefit of shareholders, de facto controller and their connected parties (C)													0
Amount of guarantee directly or indirectly provided for the benefit of parties with a gearing ratio in excess of 70% (D)													10,298.95
Portion of the total amount of guarantee in excess of 50% of net assets (E)													0
Aggregate amount of the above (C+D+E)													10,298.95
Description of the potential joint and several repayment liability for outstanding guarantee						See the description below							
Details of guarantee						See the description below							

- Notes: 1. In the total balance of guarantee at the end of the reporting period, the balance of guarantee provided by the Company's subsidiaries (of which the Company is a shareholder) to external parties refers to the amount of guarantee provided by such subsidiary to external parties multiplied by the Company's shareholding in such subsidiary;
2. Percentage of total amount of guarantee to net assets of the Company = Total amount of guarantee/Net assets of the Company at the end of the period under Accounting Standards for Business Enterprises

Significant Events

At the end of the reporting period, the total balance of the amount of guarantee provided by the Company and its subsidiaries for the benefit of the subsidiaries and that provided by the Company and its subsidiaries for the benefit of external parties amounted to RMB10,762.44 million, including:

- (1) At the end of the reporting period, the guarantee provided by Shenbao Energy Company (a subsidiary owned as to 56.61% by the Company) for the benefit of external parties was as follows: prior to the acquisition of Shenbao Energy Company by the Company in 2011 and pursuant to the “Guarantee Contract on the Syndicated Renminbi Loan for the Joint Venture Railway Project Connecting Yimin and Yiershi Newly Constructed by Hulunbeier Liangyi Railway Company Limited”, in 2008, Shenbao Energy Company, as one of the guarantors, provided joint and several liability guarantee to Hulunbeier Liangyi Railway Company Limited (hereinafter referred to as the “Liangyi Railway Company”, owned as to 14.22% by Shenbao Energy Company) for the syndicated loans. The principal liability guaranteed was the debts due to the lender with a maximum balance of RMB207.5 million from 2008 to 2027, regardless of whether the debt is due when the above period expires. The above syndicated loans will due by tranches between 2011 and 2026. The guarantee contract provides that the guarantee period of the debts borne by the guarantor shall be calculated from the due date of each tranche to two years after the due date of the last tranche, i.e. 2029.

Given that Liangyi Railway Company failed to pay the loan interest on time due to the deteriorated business operation, as resolved by the shareholders’ general meeting of Liangyi Railway Company, additional capital was contributed to Liangyi Railway Company by its shareholders (including Shenbao Energy Company). Shenbao Energy Company has contributed an accumulated amount of RMB11.82 million into Liangyi Railway Company Limited.

As at the end of the reporting period, Shenbao Energy Company repaid the principal on loans on behalf of Liangyi Railway Company amounting to RMB7.53 million in aggregate on the basis of the shareholding proportion. Shenbao Energy Company already made full provision for impairment on its 14.22% equity interest in Liangyi Railway Company and the repayment amount paid on its behalf. Together with other shareholders, Shenbao Energy Company will continue to urge Liangyi Railway Company to improve operation and management. As at 30 June 2016, Liangyi Railway Company had a gearing ratio of 116%.

- (2) At the end of the reporting period, the amount of guarantee provided by the Company for the benefit of its subsidiaries is detailed as follows: on 23 December 2013, the board of directors of the Company approved the Company to acquire Baotou Coal Chemical Company and replace Shenhua Group Corporation in providing guarantee to Baotou Coal Chemical Company for the USD Loan of US\$350 million for a term up to August 2018 from China Development Bank.

As at 30 June 2016, the balance of the guarantee for the USD Loan was US\$69.9million (equivalent to approximately RMB463.49 million). The gearing ratio of Baotou Coal Chemical Company was 45%.

- (3) According to the statistics, as of the end of the reporting period, the amount of guarantees between the subsidiaries included in the consolidated financial report of the Company was approximately RMB10,189.08 million based on the shareholding of the Company. The guarantees mainly comprise the guarantee for the US\$1.5 billion bonds (the remaining balance denominated in US dollars decreased, but the remaining balance denominated in RMB increased as affected by exchange rates) issued by Shenhua Hong Kong Limited, a wholly-owned subsidiary of the Company, to China Shenhua Overseas Capital Company Limited, which is a wholly-owned subsidiary of Shenhua Hong Kong Limited, as well as those provided by Shenhua Funeng Power Generation Co., Ltd., 51% of which is held indirectly by the Company, to Shenhua Funeng (Fujian Longyan) Power Co., Ltd. and Shenhua Funeng (Fujian Yanshi) Power Co., Ltd., which are the subsidiaries of Shenhua Funeng Power Generation Co., Ltd.

Significant Events

VIII. PERFORMANCE OF UNDERTAKING

Applicable Not applicable

Background of undertaking	Type of undertaking	Party making the undertaking	Undertaking	Time and duration of undertaking	Any time limit for undertaking	Timely and strict performance of undertaking	Specific reasons for the failure to timely performance of the undertaking	Further plans in the event of failing to timely performance of the undertaking
Undertaking made in connection with initial public offering	Non-competition undertaking	Shenhua Group Corporation	The Company and Shenhua Group entered into a "Non-competition Agreement" on 24 May 2005. Pursuant to such agreement, Shenhua Group has committed not to compete with the Company in respect of the Company's principal businesses inside and outside of the PRC, and granted the Company options and pre-emptive rights to acquire and be transferred from Shenhua Group any business opportunities and assets which may pose potential competition in the same sector.	24 May 2005, long-term	Yes	Yes. China Shenhua announced to the public in June 2014: China Shenhua will initiate the acquisition of 14 asset items of Shenhua Group and its subsidiaries before 30 June 2019 (i.e. submitting the asset acquisition plan to the internal competent authorities of China Shenhua for approval).	N/A	N/A
Other undertakings	Undertakings made in connection with the increase in shareholding	Shenhua Group Corporation	Shenhua Group Corporation proposed to increase its shareholding in the A shares of the Company via the securities trading system of the Shanghai Stock Exchange in its name within 12 months starting from 8 July 2015. Shenhua Group Corporation also undertook not to dispose of the shares of the Company held by it during the implementation period of the plan for the increase in its shareholding and the statutory period	8 July 2015, during the period of the plan for the increase in shareholding and statutory period	Yes	Yes	N/A	N/A

IX. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Applicable Not applicable

Explanations on the appointment and removal of accounting firms: Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu were appointed as the domestic and overseas auditors of the Company respectively for 2016 at the Company's 2015 annual general meeting held on 17 June 2016.

Explanation on change of appointment of the accounting firm during the auditing period: N/A.

Significant Events

X. SANCTIONS AND RECTIFICATIONS IMPOSED ON THE COMPANY, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH 5% OR MORE SHAREHOLDING AND DE FACTO CONTROLLER AND OFFEROR

Applicable Not applicable

XI. CONVERTIBLE BONDS OF THE COMPANY

Applicable Not applicable

XII. CORPORATE GOVERNANCE

During the reporting period, there is no material difference between the corporate governance of the Company and requirements under regulatory documents in relation to the corporate governance of the listed companies.

The board of directors is responsible for the corporate governance of the Company. The Company has established its own system of corporate governance pursuant to the corporate governance policies as set out in Appendix 14 of the Hong Kong Listing Rules. As of 30 June 2016, the Company has been in full compliance with the principles and provisions and most of the recommended best practices as specified therein. For the terms of reference of the board of directors and its special committees in performing duties under the Corporate Governance Code, please refer to the Articles of Association, Rules of Procedure of Meetings of the Board of Directors and rules of procedure of its special committees, which have been published on the website of the stock exchanges where the Company is listed and on the Company's website.

The convening, voting, disclosure procedures and rules of procedure of meetings of the board of directors of the Company, and procedures for nomination and election of directors, are in compliance with regulatory requirements. The board of directors is the standing decision-making entity of the Company. The Articles of Association sets out in detail the separate responsibilities of the chairman and the president.

The board of directors of the Company has formulated its board diversity policy with members coming from a variety of backgrounds, which guarantees the rationality and reasonableness of decisions made by the board of directors. Members of the board of directors are individuals from various domestic and overseas industries, including one female director. The number of non-executive directors accounts for half of the directors. Each director's knowledge base and field of expertise are professional and complementary in the overall board structure.

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 comprised Mr. Gong Huazhang (chairman of the Audit Committee, 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. The principal duties of the Audit Committee include: overseeing and evaluating the work of the external auditor; providing guidance on the internal audit; reviewing the financial reports of the Company and issuing opinions; evaluating the effectiveness of the risk management and internal control; coordinating the communication of the management, internal audit department and the relevant departments with the external auditor; other matters authorized by the board of directors of the Company or required under the relevant laws and regulations. During the reporting period, the Audit Committee performed its duties in strict compliance with the Rules of Procedures of the Audit Committee of the Board of Directors, the Work Procedures of the Audit Committee of the Board of Directors and the Work Procedures for the Annual Reports of the Audit Committee of the Board of Directors of China Shenhua. On 16 August 2016, the Audit Committee reviewed the Group's interim financial statements for the six months ended 30 June 2016 and approved the submission of the same to the board of directors for consideration and approval.

China Shenhua has an independent and complete business structure as well as a market-oriented self-operation capability. The Company is independent from its controlling shareholder in terms of business, personnel, assets, organisation and finance.

Significant Events

As a transitional measure to avoid competition, the Company was entrusted by Shenhua Group Corporation to provide daily operation management services for the existing assets and businesses of Shenhua Group upon the completion of relevant procedures. As at the end of the reporting period, the Company appointed three deputy general managers of Shenhua Group Corporation as the president and senior vice presidents of the Company.

While preserving its independent and complete business structure and its market-oriented self-operation capability, the Company will further regulate related party transactions, reduce possible competition and strive to maximise the interest of the shareholders.

XIII. OTHER MATERIAL MATTERS

- (I) Analysis and explanation on the reasons and impact of the changes regarding accounting policies, accounting estimates and accounting methods by the board of directors
- Applicable ✓ Not applicable
- (II) Analysis and explanation on the reasons and impact of corrections of material previous mistakes by the board of directors
- Applicable ✓ Not applicable

Changes in Shares and Shareholders

I. CHANGES IN EQUITY

(I) Changes in shares

1. Changes in shares

During the reporting period, there were no changes in the total number of shares and equity structure. The Company did not issue any preference shares.

	As at 30 June 2016	
	Number	Percentage (%)
I. Shares with selling restrictions	0	0.00
II. Shares without selling restrictions	19,889,620,455	100.00
1. RMB ordinary shares	16,491,037,955	82.91
2. Overseas listed foreign shares	3,398,582,500	17.09
III. Total number of shares	19,889,620,455	100.00

During the six months ended 30 June 2016, the Company did not purchase, sell or redeem any of the Company's securities as defined under the Hong Kong Listing Rules.

The Company has satisfied the minimum public float provisions under Rule 8.08 of the Hong Kong Listing Rules.

2. Details of changes in shares

The Company did not issue any ordinary share, convertible corporate bond, exchangeable bond, corporate bond and other derivative securities nor did it enter into any equity-linked agreement during the reporting period.

During the reporting period, there were no changes in the total number of shares, equity structure and assets and liabilities structure of the Company as a result of bonus issue, conversion of capital reserve, share placing, issuance of new shares, non-public offering of shares, exercise of warrants, implementation of share incentive plan, business combination, conversion of convertible bonds, reduction of share capital, listing of shares held by internal employees or otherwise.

There are no provisions for pre-emptive rights under the Articles of Association and the PRC laws which entitle the existing shareholders to have pre-emptive rights to subscribe for new shares in proportion to their shareholding in the event of new share issuance by the Company.

(II) Changes in shares with selling restrictions

Applicable Not applicable

Changes in Shares and Shareholders

II. SHAREHOLDERS

(I) Total number of shareholders:

Total number of shareholders as at the end of the reporting period (number of accounts)	216,217
Of which: Registered holders of A shares (including Shenhua Group Corporation)	213,842
Registered holders of H shares	2,375

(II) Shareholdings of top ten shareholders and top ten holders of tradable shares (or shares not subject to selling restrictions) as at the end of the reporting period

Unit: Number of shares

Shareholdings of the top ten shareholders							
Full name of shareholders	Increase/ decrease during the reporting period	Number of shares held at the end of the reporting period	Percentage (%)	Number of shares held with selling restrictions	Shares subject to pledge or lock-up		Nature of Shareholders
					Status	Number	
Shenhua Group Corporation Limited	0	14,530,574,452	73.06	0	Nil	N/A	State-owned
HKSCC NOMINEES LIMITED	-104,667	3,389,953,809	17.04	0	Unknown	N/A	Overseas corporation
China Securities Finance Corporation Limited	47,115,676	603,163,909	3.03	0	Nil	N/A	Others
Central Huijin Asset Management Ltd.	0	110,027,300	0.55	0	Nil	N/A	State-owned
Bank of China Limited – China Merchants Fengqing Flexible Configuration Hybrid Initiated Securities Investment Fund	0	25,159,394	0.13	0	Nil	N/A	Others
Hong Kong Securities Clearing Company Limited	12,138,339	19,439,213	0.10	0	Nil	N/A	Overseas corporation
National Social Security Fund 504 Portfolio	0	15,000,000	0.08	0	Nil	N/A	State-owned
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-ended Index Securities Investment Fund	42,793	14,539,226	0.07	0	Nil	N/A	Others
Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund	0	14,014,887	0.07	0	Nil	N/A	Others
National Social Security Fund 503 Portfolio	-4,880,000	12,000,000	0.06	0	Nil	N/A	State-owned

Changes in Shares and Shareholders

Shareholdings of top ten shareholders without selling restrictions			
Name of shareholders	Number of shares without selling restrictions	Type and number of shares	
		Type	Number
Shenhua Group Corporation Limited	14,530,574,452	RMB ordinary shares	14,530,574,452
HKSCC NOMINEES LIMITED	3,389,953,809	Overseas-listed foreign shares	3,389,953,809
China Securities Finance Corporation Limited	603,163,909	RMB ordinary shares	603,163,909
Central Huijin Asset Management Ltd.	110,027,300	RMB ordinary shares	110,027,300
Bank of China Limited – China Merchants Fengqing Flexible Configuration Hybrid Initiated Securities Investment Fund	25,159,394	RMB ordinary shares	25,159,394
Hong Kong Securities Clearing Company Limited	19,439,213	RMB ordinary shares	19,439,213
National Social Security Fund 504 Portfolio	15,000,000	RMB ordinary shares	15,000,000
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-ended Index Securities Investment Fund	14,539,226	RMB ordinary shares	14,539,226
Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund	14,014,887	RMB ordinary shares	14,014,887
National Social Security Fund 503 Portfolio	12,000,000	RMB ordinary shares	12,000,000
Details regarding the connected relationships among the above shareholders or whether they are parties acting in concert	HKSCC Nominees Limited and Hong Kong Securities Clearing Company Limited are both wholly-owned subsidiaries of Hong Kong Exchanges and Clearing Limited; the custodian bank of both Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-ended Index Securities Investment Fund and Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund is the Industrial & Commercial Bank of China Limited; the de facto controller of both the National Social Security Fund 504 Portfolio and National Social Security Fund 503 Portfolio is the National Social Security Fund. Save as disclosed above, the Company is not aware of any connected relationships between the top ten shareholders not subject to selling restrictions and the top ten shareholders and whether they are parties acting in concert as defined in the Measures for Administration of Acquisition of Listed Companies.		
Details regarding the holders of preference shares with voting rights restored and the number of shares held	N/A		

Note: H shares held by HKSCC Nominees Limited are held on behalf of a number of its clients; A shares held by Hong Kong Securities Clearing Company Limited are held on behalf of a number of its clients.

During the period from 8 July 2015 to 7 July 2016, Shenhua Group Corporation accumulatively increased 8,727,892 A shares for 2016 of the Company, representing 0.04% of the total issued shares of the Company. Please refer to the H share announcement dated 11 July 2016 and the A share announcement dated 12 July 2016 of the Company for details. During the reporting period, Shenhua Group Corporation did not increase its shareholding in the Company.

Changes in Shares and Shareholders

(III) Strategic investors or general legal persons becoming top ten shareholders as a result of new share placing

Applicable Not applicable

(IV) Interests and short positions in the shares of the Company held by substantial shareholders

As at 30 June 2016, the persons as disclosed in the table below had interests and/or short positions in the shares or underlying shares of the Company which are required to be recorded in the register of equity interests and/or short positions to be kept under section 336 of Part XV of the Securities and Futures Ordinance (the "SFO", Chapter 571 of the laws of Hong Kong):

No.	Name of shareholder	Capacity	H shares/A shares	Nature of interest	Number of H shares/A shares held	Percentage of H shares/A shares over total issued H shares/A shares respectively	Percentage of total share capital of the Company
						%	%
1	Shenhua Group Corporation	Beneficial owner	A shares	N/A	14,530,574,452	88.11	73.06
2	JPMorgan Chase & Co.	Beneficial owner; Investment Manager; Trustee (except for bare trustee); custodian – corporation/approved lending agent	H shares	Long position	239,249,050	7.03	1.20
				Short position	6,720,152	0.19	0.03
				Lending pool	102,942,728	3.02	0.52
3	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H shares	Long position	216,746,552	6.38	1.09
				Short position	11,652,000	0.34	0.06

Note: (1) Information disclosed above is based on information available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk).

(2) In 239,249,050 H shares in long position held by JPMorgan Chase & Co., 121,628,966 H shares are held in its capacity as the beneficial owner, 14,671,040 H shares are held in its capacity as the investment manager, 6,316 H shares are held in its capacity as the trustee (except for bare trustee), 102,942,728 H shares are held in its capacity as the custodian – corporation/approved lending agent. In addition, the following H shares in both long position and short position involve derivatives, including:

- a. 971,356 H shares in long position and 1,226,500 H shares in short position: derivatives listed on or traded on the Hong Kong Stock Exchange or traded on the future exchange – physically settled;
- b. 60,000 H shares in short position: derivatives listed on or traded on the Hong Kong Stock Exchange or traded on the future exchange – cash settled;
- c. 5,417,735 H shares in long position and 191,682 H shares in short position: unlisted derivatives – physically settled;
- d. 2,391,970 H shares in long position and 5,241,970 H shares in short position: unlisted derivatives – cash settled.

(3) In H shares in long position and short position held by BlackRock, Inc., 68,665 H shares in long position and 1,174,500 H shares in short position involve derivatives, and their type is unlisted derivatives – cash settled.

As at 30 June 2016, save as disclosed above, there was no other person who held interests and/or short positions in the shares or underlying shares of the Company which are required to be recorded in the register to be kept under section 336 of Part XV of the SFO, or was a substantial shareholder of the Company.

III. CHANGES IN CONTROLLING SHAREHOLDER OR DE FACTO CONTROLLER

Applicable Not applicable

Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDING

- (I) Changes in shareholding of current directors, supervisors, and senior management and those outgoing during the reporting period

Applicable Not applicable

During the reporting period, there were no changes in shareholding in the Company held by the directors, supervisors and senior management of the Company that were required to be disclosed pursuant to the “Rules on the Management of Shares Held by Directors, Supervisors and Senior Management of Listed Companies and the Changes Thereof” promulgated by the CSRC. As at the end of the reporting period, there were no directors, supervisors and senior management of the Company who held any share of the Company.

After making enquiries, all the directors and supervisors have confirmed that they have fully complied with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules, which was adopted by the Company, for the six months ended 30 June 2016.

As at 30 June 2016, none of the directors, supervisors or senior management of the Company had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations within the meaning of Part XV of the SFO (Chapter 571 of the laws of Hong Kong), as recorded in the register required to be kept under section 352 of the SFO or which was otherwise required to be notified by directors and supervisors to the Company and the Hong Kong Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers.

As at 30 June 2016, the Company did not grant any equity securities or warrants to its directors, supervisors and senior management or their respective spouses or children under the age of 18.

- (II) Equity incentives granted to directors, supervisors and senior management during the reporting period

Applicable Not applicable

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Applicable Not applicable

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

Directors, Supervisors, Senior Management and Employees

III. EMPLOYEES

Total number of existing employees of the Group (number of person)	93,106
Number of resigned and retired employees in respect of which the Company and subsidiaries were responsible for bearing costs (number of person)	11,574
By Function	
Function	Number of people (person)
Operation and maintenance	53,047
Management and administration	13,213
Finance and accounting	1,564
R&D	3,128
Technical support	12,078
Sales and marketing	2,481
Others	7,595
Total	93,106
By educational level	
Educational level	Number of people (person)
Postgraduate or above	3,007
University graduate	28,932
College graduate	25,372
Specialised secondary school graduate	12,934
Technical school graduate, high school graduate or below	22,861
Total	93,106

The Company has formulated a competitive remuneration policy that combines basic salary and performance assessment and is oriented towards first-tiered employees. The Company has established a multi-layered and multi-channel training system, providing employees with suitable training programs on occupational skills, production safety, group-based management and other aspects.

Investor Relations

During the first half of 2016, the coal market remained stable amidst the weak sentiment, coal prices bounced back and interest of the capital markets in the coal industry increased. China Shenhua has grasped this opportunity to proactively optimise investor relations work to achieve effective communication between the Company and the market.

I. MAINTAINING FREQUENT INTERACTION AND MAINTAINING AN EFFECTIVE COMMUNICATION CHANNEL

Taking advantage of the opportunity brought by the growing attractiveness of the coal industry in the capital markets, the Company has taken the initiative to step up its efforts in investor relations work and has been engaging in honest and sufficient communication with investors and analysts in an on-going fashion through results announcement conferences, roadshows, online forums and other means. We have communicated with over 360 analysts and fund managers and have been able to conduct weekly market research and engage in daily telephone communication except for the black-out period. In particular: communications have been made with over 120 persons at roadshows, over 100 persons at investment forums and over 140 persons during company visits and by conference calls and the Company has also held an online forum.

II. FOCUSING ON MARKET HIGHLIGHTS AND PROVIDING EFFECTIVE INFORMATION CONTINUOUSLY

Under the circumstances of capacity control in the domestic coal industry and low utilisation hours of thermal power generation, the market has paid much concern about the Company and the industry. In the process of interaction with investors, the Company has studied the changes in industry and related policies and interacted with investors regarding the industry highlights on one hand. It has introduced its macroscopic logistics system and business concepts to the market to further strengthen the market image of the Company as a comprehensive energy enterprise and boost the confidence of capital markets to the Company's future prospect.

III. ENHANCING THE INTERACTION WITH SMALL AND MEDIUM INVESTORS

The Company always values the legitimate rights of small and medium investors. It maintains effective communication with small and medium investors through telephone and network interaction. Such investors have been invited to attend in person and vote at the shareholders' general meeting and arranged face-to-face interaction with the Company's management. Meanwhile, the Company's shareholders' general meeting elects directors and supervisors with the implementation of accumulated voting system adopting the way of network voting comprehensively. Votes of small and medium investors will be counted individually and disclosed publicly if significant events involving the interests of such investors are voted.

IV. PROMOTING THE COMPANY TO PARTICIPATE INVESTORS' RELATIONS COMPREHENSIVELY ON AN ON-GOING BASIS

In the first half of 2016, the Company insisted on participation of investors' interaction activities by its senior management in person, promoted the in-depth participation of information disclosure and investors' relations by the business staff and general personnel and further strengthened the Company's understanding on the capital markets, thereby providing investors with in-depth and specific information of the Company's operating position.

Report on Review of Condensed Consolidated Financial Statements



TO THE BOARD OF DIRECTORS OF CHINA SHENHUA ENERGY COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 74 to 107, which comprise the condensed consolidated statement of financial position as at 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 August 2016

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

for the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 RMB million (Unaudited)	2015 RMB million (Unaudited) (Restated)
Revenue	5	78,723	90,001
Cost of sales	6	(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	7	174	408
Finance costs	7	(2,946)	(2,213)
Share of results of associates		35	129
Profit before income tax		19,511	22,694
Income tax expense	8	(4,701)	(4,681)
Profit for the period	9	14,810	18,013
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	–
Other comprehensive income for the period, net of income tax		148	77
Total comprehensive income for the period		14,958	18,090
Profit for the period attributable to:			
Equity holders of the Company		10,827	13,419
Non-controlling interests		3,983	4,594
		14,810	18,013
Total comprehensive income for the period attributable to:			
Equity holders of the Company		10,966	13,498
Non-controlling interests		3,992	4,592
		14,958	18,090
Earnings per share (RMB)			
– Basic	11	0.544	0.675

Condensed Consolidated Statement of Financial Position

at 30 June 2016

	NOTES	30 June 2016 <i>RMB million</i> (Unaudited)	31 December 2015 <i>RMB million</i> (Audited)
Non-current assets			
Property, plant and equipment	12	329,757	339,326
Construction in progress	12	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	13	34,760	34,562
Lease prepayments	14	16,410	16,535
Deferred tax assets		2,565	2,674
Total non-current assets		434,574	438,755
Current assets			
Inventories	15	14,192	12,816
Accounts and bills receivable	16	26,570	41,019
Prepaid expenses and other current assets	17	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	18	66,189	42,323
Total current assets		130,873	121,036
Current liabilities			
Borrowings	19	12,550	12,812
Short-term debenture	20	–	4,998
Accounts and bills payable	21	32,095	33,990
Accrued expenses and other payables	22	45,329	47,519
Current portion of long-term liabilities	23	268	203
Income tax payable		1,803	1,965
Total current liabilities		92,045	101,487
Net current assets		38,828	19,549
Total assets less current liabilities		473,402	458,304

Condensed Consolidated Statement of Financial Position (Continued)

at 30 June 2016

	NOTES	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Non-current liabilities			
Borrowings	19	60,842	54,179
Medium-term notes		24,965	24,955
Bonds	24	9,864	9,651
Long-term liabilities	23	2,355	2,523
Accrued reclamation obligations	25	2,265	2,197
Deferred tax liabilities		817	878
Total non-current liabilities		101,108	94,383
Net assets		372,294	363,921
Equity			
Share capital	26	19,890	19,890
Reserves		282,779	278,178
Equity attributable to equity holders of the Company		302,669	298,068
Non-controlling interests		69,625	65,853
Total equity		372,294	363,921

These condensed consolidated financial statements on page 74 to 107 were approved and authorised for issue by the Board of Directors on 26 August 2016, and assigned on its behalf by:

Zhang Yuzhuo
Chairman

Han Jianguo
Director and President

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			
	RMB million (Note 26)	RMB million (note (i))	RMB million (note (ii))	RMB million	RMB million (note (iii))	RMB million (note (iv))	RMB million (note (v))			
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 (note 10)	-	-	-	-	-	-	(6,365)	(6,365)	-	(6,365)
Appropriation of maintenance and production funds (note (iii))	-	-	-	-	1,844	-	(1,844)	-	-	-
Utilisation of maintenance and production funds (note (iii))	-	-	-	-	(551)	-	551	-	-	-
Contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	408	408
Distributions to non-controlling shareholders	-	-	-	-	-	-	-	-	(628)	(628)
At 30 June 2016 (unaudited)	19,890	85,001	3,612	(45)	19,296	(14,300)	189,215	302,669	69,625	372,294

Condensed Consolidated Statement of Changes in Equity (Continued)

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			
	RMB million (Note 26)	RMB million (note (i))	RMB million (note (ii))	RMB million	RMB million (note (iii))	RMB million (note (iv))	RMB million (note (v))			
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 (note 4)	-	-	-	-	-	2,667	787	3,454	517	3,971
At 1 January 2015 (audited, as restated)	19,890	85,001	3,612	(353)	16,071	(8,570)	185,047	300,698	64,872	365,570
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 (note 10)	-	-	-	-	-	-	(14,718)	(14,718)	-	(14,718)
Appropriation of maintenance and production funds (note (iii))	-	-	-	-	2,733	-	(2,733)	-	-	-
Utilisation of maintenance and production funds (note (iii))	-	-	-	-	(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)	19,890	85,001	3,612	(269)	17,445	(8,575)	182,374	299,478	67,715	367,193

Condensed Consolidated Statement of Changes in Equity (Continued)

for the six months ended 30 June 2016

Notes:

(i) Share premium represents the difference between the total amount of the par value of shares issued and the amount of net proceeds received upon the global initial public offering of H shares in 2005 and the issuance of A shares in 2007.

(ii) The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets, net of other reserves, transferred from Shenhua Group in connection with the Restructuring (as defined in Note 1).

(iii) Statutory reserves

Statutory surplus reserve

According to the PRC Company Law and the Company's Articles of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the China Accounting Standards for Business Enterprises ("China Accounting Standards") to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital of the Company. The transfer to statutory surplus reserve must be made before distribution of dividends to shareholders.

The statutory surplus reserve has reached 50% of the registered capital in 2009. Accordingly, no appropriation of net profit to the statutory surplus reserve has been proposed since 1 January 2010.

Statutory surplus reserve can be used to make up losses, if any, or to expand the Company's business, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital of the Company. The statutory surplus reserve is not distributable.

Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations, the Group is required to transfer the maintenance and production funds at fixed rates based on production volume to a specific reserve account. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

General reserve

Pursuant to relevant regulations issued by the Ministry of Finance of the PRC, the Company's subsidiary, Shenhua Finance Co., Ltd., is required to set aside a general reserve by the end of the financial year through appropriation of profit after tax as determined in accordance with China Accounting Standards at a certain ratio of the ending balance of gross risk-bearing assets to cover potential losses against such assets.

The directors of the Company (the "Directors") have not proposed any appropriation to the general reserve for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Discretionary surplus reserve

The appropriation to the discretionary surplus reserve is subject to the shareholders' approval. The utilisation of the reserve is similar to that of the statutory surplus reserve.

The Directors have not proposed any appropriation to the discretionary surplus reserve for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

(iv) Other reserves

Other reserves mainly represent the consideration paid for acquisition of subsidiaries under common control.

(v) Retained earnings

Included in the retained earnings of the Group were the surplus reserve of its domestic subsidiaries amounted to RMB16,588 million (31 December 2015: RMB16,439 million) as at 30 June 2016.

Condensed Consolidated Statement of Cash Flows

for the six months ended 30 June 2016

	Six months ended 30 June	
	2016 <i>RMB million</i> (Unaudited)	2015 <i>RMB million</i> (Unaudited) (Restated)
OPERATING ACTIVITIES		
Profit before income tax	19,511	22,694
Adjustments for:		
Depreciation and amortisation (<i>Note 9</i>)	12,151	11,174
Other gains and losses (<i>Note 9</i>)	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 (<i>Note 7</i>)	(11)	1
Exchange loss, net	608	219
Other income	(1)	(9)
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
Cash generated from operations	43,022	38,233
Income tax paid	(4,815)	(6,044)
NET CASH GENERATED FROM OPERATING ACTIVITIES	38,207	32,189
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
NET CASH USED IN INVESTING ACTIVITIES	(10,794)	(11,756)

Condensed Consolidated Statement of Cash Flows (Continued)

for the six months ended 30 June 2016

	Six months ended 30 June	
	2016 <i>RMB million</i> (Unaudited)	2015 <i>RMB million</i> (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 (<i>note 4</i>)	(309)	–
NET CASH USED IN FINANCING ACTIVITIES	(3,583)	(4,791)
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)
CASH AND CASH EQUIVALENTS, AT THE END OF THE PERIOD	66,189	51,597

Notes to the Condensed Consolidated Financial Statements

for the six months ended 30 June 2016

1. PRINCIPAL ACTIVITIES AND ORGANISATION

Principal activities

China Shenhua Energy Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in: (i) the production and sale of coal; and (ii) the generation and sale of coal-based power to provincial/regional electric grid companies in the People’s Republic of China (the “PRC”). The Group operates an integrated railway network and seaports that are primarily used to transport the Group’s coal sales from its mines. The primary customers of the Group’s coal sales include power plants, metallurgical and coal chemical producers and provincial/regional electric grid companies in the PRC.

Organisation

The Company was established in the PRC on 8 November 2004 as a joint stock limited company as part of the Restructuring (as defined below) of Shenhua Group, a state-owned enterprise under the direct supervision of the State Council of the PRC.

Effective on 31 December 2003, the coal production and power generation operations previously operated by various entities wholly-owned or controlled by Shenhua Group were restructured and managed separately (the “Restructuring”), and those assets and liabilities related to the operations and businesses that were transferred to the Company were revalued by China Enterprise Appraisal Co., Ltd., an independent valuer registered in the PRC, as at 31 December 2003 as required by the PRC rules and regulations.

On 8 November 2004, in consideration for Shenhua Group transferring the coal mining and power generating assets and liabilities to the Company, the Company issued 15,000,000,000 domestic state-owned ordinary shares with a par value of RMB1.00 each to Shenhua Group. The shares issued to Shenhua Group represented the entire registered and paid-up share capital of the Company at that date.

In 2005, the Company issued 3,089,620,455 H shares with a par value of RMB1.00 each, at a price of Hong Kong dollar (“HKD”) 7.50 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.

Immediate parent and ultimate controlling party

For the six months ended 30 June 2016, the Directors consider the immediate parent and ultimate holding company of the Group to be Shenhua Group.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board (“IASB”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

3. 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.

4. RESTATEMENTS ARISING FROM ACQUISITIONS OF SUBSIDIARIES UNDER COMMON CONTROL

As disclosed in the Group's annual financial statements for the year ended 31 December 2015, on 31 October 2015, the Company completed the acquisition from Shenhua Group the 100% equity interest in Ningdong Power Plant ("Ningdong Power"), 100% equity interest in Xuzhou Power Plant ("Xuzhou Power") and 51% equity interest in Zhoushan Power Plant ("Zhoushan Power") (collectively referred to as "2015 Acquisitions") for a cash consideration of RMB522 million, RMB3,997 million and RMB867 million, respectively.

During the year ended 31 December 2015, the Company paid RMB5,386 million based on the valuation of the acquired business as at 30 June 2015 (the "Valuation Date"). The Company has to pay an additional consideration of RMB309 million to Shenhua Group, being the excess of the net assets as at the completion date of the 2015 Acquisitions over that of the Valuation Date, for the acquired businesses.

As the Company, Ningdong Power, Xuzhou Power and Zhoushan Power were under common control of Shenhua Group before and after the 2015 Acquisitions, the acquisitions are considered as a combination of businesses under common control. The principle of merger accounting for business combination involving entities under common control has therefore been applied. As a result, comparative information presented in the condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2015 have been restated to include the results and cash flows of Ningdong Power, Xuzhou Power and Zhoushan Power as if they were subsidiaries of the Company throughout the six months ended 30 June 2015.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

4. RESTATEMENTS ARISING FROM ACQUISITIONS OF SUBSIDIARIES UNDER COMMON CONTROL (CONTINUED)

The effect of 2015 Acquisitions on the result and cash flows of the Group for the six months ended 30 June 2015 is summarised as follows:

	The Group RMB million (as previously reported)	Effect of 2015 Acquisitions RMB million (Note)	The Group RMB million (Restated)
Condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2015			
Revenue	87,783	2,218	90,001
Cost of sales	(59,391)	(1,424)	(60,815)
Gross profit	28,392	794	29,186
Selling expenses	(261)	–	(261)
General and administrative expenses	(4,186)	(83)	(4,269)
Other gains and losses	(434)	(2)	(436)
Other income	348	1	349
Other expenses	(199)	–	(199)
Interest income	410	(2)	408
Finance costs	(2,039)	(174)	(2,213)
Share of results of associates	129	–	129
Profit before income tax	22,160	534	22,694
Income tax expense	(4,555)	(126)	(4,681)
Profit for the period	17,605	408	18,013
Other comprehensive income for the period			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit obligations	–	(5)	(5)
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Exchange differences	82	–	82
Other comprehensive income for the period, net of income tax	82	(5)	77
Total comprehensive income for the period	17,687	403	18,090

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

4. RESTATEMENTS ARISING FROM ACQUISITIONS OF SUBSIDIARIES UNDER COMMON CONTROL (CONTINUED)

	The Group <i>RMB million</i> (as previously reported)	Effect of 2015 Acquisitions <i>RMB million</i> (Note)	The Group <i>RMB million</i> (Restated)
Condensed consolidated statement of cash flows for the six months ended 30 June 2015			
Net cash generated from operating activities	30,911	1,278	32,189
Net cash used in investing activities	(11,623)	(133)	(11,756)
Net cash used in financing activities	(3,653)	(1,138)	(4,791)
Net increase in cash and cash equivalents	15,635	7	15,642
Earnings per share (RMB)			
– Basic	0.657	0.018	0.675

Note: Effect of 2015 Acquisitions also included the effect of elimination of intragroup income, expenses and cash flows.

5. REVENUE

	Six months ended 30 June	
	2016 <i>RMB million</i> (Unaudited)	2015 <i>RMB million</i> (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

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

6. COST OF SALES

	Six months ended 30 June	
	2016 <i>RMB million</i> (Unaudited)	2015 <i>RMB million</i> (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

7. INTEREST INCOME/FINANCE COSTS

	Six months ended 30 June	
	2016 <i>RMB million</i> (Unaudited)	2015 <i>RMB million</i> (Unaudited) (Restated)
Interest income	(174)	(408)
Interest expense	2,582	2,918
Less: amount capitalised	(296)	(1,003)
	2,286	1,915
Unwinding of discount	63	78
Exchange loss, net	608	219
Fair value changes on financial instruments	(11)	1
	2,946	2,213

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016 <i>RMB million</i> (Unaudited)	2015 <i>RMB million</i> (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.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2016 <i>RMB million</i> (Unaudited)	2015 <i>RMB million</i> (Unaudited) (Restated)
Personnel expenses, including	9,329	9,088
– contributions to defined contribution plans	1,359	1,357
Depreciation of property, plant and equipment	11,534	10,509
Amortisation of intangible assets, included in cost of sales	200	127
Amortisation of lease prepayments, included in cost of sales	211	192
Amortisation of other non-current assets	206	346
Depreciation and amortisation	12,151	11,174
Other gains and losses, represent		
– losses on disposal of properties	147	39
– impairment in respect of properties and equipment	–	406
– reversal of impairment loss on loans receivable	(2)	(17)
– allowance for doubtful debts	7	8
	152	436
Carrying amount of inventories sold	37,366	41,397
Operating lease in respect of properties and equipment	128	141
Exchange loss, net	608	219

10. 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).

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

11. 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.

12. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2016, the additions of property, plant and equipment (excluding transferred from construction in progress) and construction in progress were amounting to RMB521 million (six months ended 30 June 2015: RMB717 million, as restated) and RMB7,158 million (six months ended 30 June 2015: RMB11,375 million, as restated), respectively.

The Group is in the process of applying for the title certificates of certain of its properties with an aggregate carrying amount of RMB9,255 million as at 30 June 2016 (31 December 2015: RMB9,690 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

As at 30 June 2016, the Group is in the process of obtaining requisite permits for certain of its power plants from the relevant government authorities. The Directors are of the opinion that the Group will be able to obtain the requisite permits in due course.

No impairment loss was recognised by the Group during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB406 million).

As at 30 June 2016, the Group has bank loans to be secured by the Group's property, plant and equipment with carrying amount of RMB1,121 million (31 December 2015: RMB1,174 million).

13. OTHER NON-CURRENT ASSETS

	30 June 2016	31 December 2015
	RMB million (Unaudited)	RMB million (Audited)
Prepayments in connection with construction work, equipment purchases and others	7,909	8,493
Prepayment for mining projects	8,000	8,000
Long-term receivable	2,500	2,500
Loans to Shenhua Group and fellow subsidiaries	12,299	11,473
Long-term entrusted loans	627	627
Goodwill	987	987
Others	2,438	2,482
	34,760	34,562

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

14. LEASE PREPAYMENTS

Lease prepayments represent land use rights paid to the PRC's government authorities. The Group is in the process of applying for the title certificates of certain land use rights certificates with an aggregate carrying amount of RMB2,214 million as at 30 June 2016 (31 December 2015: RMB2,247 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

15. INVENTORIES

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Coal	4,123	3,152
Materials and supplies	8,391	7,982
Others (<i>note</i>)	1,678	1,682
	14,192	12,816

Note: Others mainly represent properties held for sale and properties under development.

16. ACCOUNTS AND BILLS RECEIVABLE

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Accounts receivable		
– Shenhua Group and fellow subsidiaries	3,120	3,049
– Associates	723	770
– Third parties	18,690	19,745
	22,533	23,564
Less: allowance for doubtful debts	(192)	(194)
	22,341	23,370
Bills receivable		
– Shenhua Group and fellow subsidiaries	155	41
– Associates	40	162
– Third parties	4,034	17,446
	4,229	17,649
	26,570	41,019

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

16. ACCOUNTS AND BILLS RECEIVABLE (CONTINUED)

Bills receivable were issued by PRC banks and were expiring within six months.

The Group allows an average credit period up to 60 days to its customers with established trading history, otherwise sales on cash terms are required.

The following is an analysis of accounts receivable by age, net of allowance for doubtful debts, presented based on the date of delivery of goods or services which approximated the revenue recognition date:

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Less than one year	20,437	21,756
One to two years	1,576	1,401
Two to three years	257	162
More than three years	71	51
	22,341	23,370

17. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Financial assets at FVTPL		
– derivative financial instruments	5	12
– investments in financial products	–	160
	5	172
Prepaid expenses and deposits	7,220	7,889
Loans and advances to Shenhua Group and fellow subsidiaries (<i>note</i>)	2,475	3,645
Amounts due from associates	141	378
Deductible VAT and other taxes	4,189	4,483
Other receivables	2,167	2,784
	16,197	19,351

Note:

As at 30 June 2016, the Group had loans to Shenhua Group and fellow subsidiaries amounting to RMB2,327 million (31 December 2015: RMB3,217 million), which bear interest at rates ranging from 3.92% to 4.28% per annum (31 December 2015: 4.14% to 5.04% per annum). The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows comprise cash on hand, cash at banks and time deposits with original maturity within three months.

19. BORROWINGS

An analysis of the Group's borrowings is as follows:

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Current borrowings:		
– Short-term banks and other borrowings	6,336	6,435
– Current portion of long-term borrowings	6,214	6,377
	12,550	12,812
Non-current borrowings:		
– Long-term borrowings, less current portion	60,842	54,179
	73,392	66,991
Secured	10,850	11,594
Unsecured	62,542	55,397
	73,392	66,991
The exposure of the long-term borrowings and the contractual maturity dates:		
Within one year	6,214	6,377
More than one year, but not exceeding two years	5,892	6,472
More than two years, but not exceeding five years	16,767	15,599
More than five years	38,183	32,108
	67,056	60,556

As at 30 June 2016, the Group had entrusted loans from Shenhua Group and fellow subsidiaries amounting to RMB5,606 million (31 December 2015: RMB7,424 million).

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

20. SHORT-TERM DEBENTURE

On 7 February 2016, the Group paid in full its outstanding unsecured short-term debentures of RMB5,000 million (six months ended 30 June 2015: RMB10,000 million), bearing annual interest rate of 3.40%. The short-term debentures are for the purpose of working capital financing.

21. ACCOUNTS AND BILLS PAYABLE

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Accounts payable		
– Shenhua Group, associates of Shenhua Group and fellow subsidiaries	2,083	1,847
– Associates	204	398
– Third parties	28,051	29,272
	30,338	31,517
Bills payable	1,757	2,473
	32,095	33,990

The following is an aging analysis of accounts payable, presented based on invoice date:

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Less than one year	24,074	25,585
One to two years	3,711	3,922
Two to three years	2,915	3,305
More than three years	1,395	1,178
	32,095	33,990

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

22. ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Financial Liabilities		
– Accrued staff wages and welfare benefits	4,344	3,397
– Accrued interest payable	1,356	784
– Dividends payable	7,140	2,786
– Deposits from Shenhua Group and fellow subsidiaries (<i>note (i)</i>)	13,962	24,500
– Other accrued expenses and payables (<i>note (ii)</i>)	11,367	8,857
	38,169	40,324
Taxes payable other than income tax	4,303	3,571
Receipts in advances	2,857	3,624
	45,329	47,519

Notes:

- (i) As at 30 June 2016, deposits from Shenhua Group and fellow subsidiaries bore interest at 0.42% to 1.92% per annum (31 December 2015: 0.42% to 1.62% per annum).
- (ii) Other accrued expenses and payables of the Group include:

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Amounts due to Shenhua Group and fellow subsidiaries	6,059	1,862
Amounts due to associates	77	44
	6,136	1,906

The above balances are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

23. LONG-TERM LIABILITIES

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Payables for acquisition of mining rights (<i>note (i)</i>)	1,123	1,263
Deferred income (<i>note (ii)</i>)	1,270	1,213
Defined benefit plans	176	171
Others	54	79
	2,623	2,726
Analysed for reporting purpose as:		
– Current liabilities	268	203
– Non-current liabilities	2,355	2,523
	2,623	2,726

Note:

- (i) The balances mainly represent payables for acquisition of mining rights which are to be settled over the period of production set out in the contracts on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the acquired mines in the acquisition agreements.
- (ii) Deferred income mainly represents grants provided by several local governments in the PRC to encourage the construction of non-current assets.

24. BONDS

During the six months ended 30 June 2015, the Group issued unsecured bonds denominated in United States Dollars with net proceeds amounting to RMB9,049 million (six months ended 30 June 2016: Nil), bearing annual interest rate ranging from 2.50% to 3.88%. The bonds are for the purpose of repaying subsidiaries' loans, financing approved overseas projects and other lawful uses, which are repayable from 2018 to 2025, and are classified as non-current liabilities.

25. ACCRUED RECLAMATION OBLIGATIONS

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change. Accordingly, the actual costs and cash flows may differ from estimates. The Directors believe that the accrued reclamation obligations at 30 June 2016 are adequate and appropriate.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

26. SHARE CAPITAL

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Registered, issued and fully paid:		
16,491,037,955 domestic listed A shares of RMB1.00 each	16,491	16,491
3,398,582,500 H shares of RMB1.00 each	3,399	3,399
	19,890	19,890

All A shares and H shares rank pari passu in all material aspects.

27. COMMITMENTS AND CONTINGENT LIABILITIES**(a) Capital commitments**

As at 30 June 2016, the Group had capital commitments for land and buildings and equipment as follows:

	30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Contracted for but not provided		
– Land and buildings	36,477	26,623
– Equipment	26,695	21,170
	63,172	47,793

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

27. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)**(b) Operating lease commitments**

As at 30 June 2016, future minimum lease payments under non-cancellable operating leases on business premises having initial or remaining lease terms of more than one year are payable as follows:

	30 June 2016	31 December 2015
	<i>RMB million</i> (Unaudited)	<i>RMB million</i> (Audited)
Within one year	51	46
After one year but within five years	42	17
After five years	–	3
	93	66

(c) Financial guarantees issued

As at 30 June 2016, the Group had issued certain guarantees in respect of certain banking facilities granted to an entity which the Group held less than 20% equity interest. The maximum amount guaranteed is RMB194 million (31 December 2015: RMB197 million).

(d) Legal contingencies

The Group is the defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

(e) Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and apart from the provision for land reclamation costs, has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The regulatory bodies, however, have moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

28. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of financial assets that are measured at fair value on a recurring basis

As at 30 June 2016, the Group has cross currency interest rate swaps and investments in financial products which are measured at fair value of RMB5 million (31 December 2015: RMB12 million) and Nil (31 December 2015: RMB160 million), respectively.

	At 30 June 2016	At 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
	<i>RMB million</i> (Unaudited)	<i>RMB million</i> (Audited)		
Financial assets:				
Cross currency interest rate swaps classified as derivative financial instruments	5	12	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates and interest rates from observable yield curves at the end of the reporting period and contracted exchange rate and interest rate discounted at a rate that reflects the credit risk of various counterparties.
Investments in financial products	–	160	Level 2	Discounted cash flows model based on expected interest rates.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values:

	30 June 2016		31 December 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	<i>RMB million</i> (Unaudited)	<i>RMB million</i>	<i>RMB million</i> (Audited)	<i>RMB million</i>
Financial liabilities:				
Fixed rate bank borrowings	5,193	5,435	4,020	4,387
Fixed rate medium-term notes	24,965	25,733	24,955	26,008
Fixed rate bonds	9,864	10,233	9,651	9,660

The fair value of fixed rate bank borrowings above is in the Level 2 category, being measured using discounted cash flow method where the future cash flows are estimated based on the contract and discounted at a rate that reflects the credit risk of the issuers.

The fair value of medium-term notes and bonds are included in the Level 1 category, which have been derived from the quoted prices (unadjusted) in an active market.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

29. RELATED PARTY TRANSACTIONS

- (a) Transactions with Shenhua Group, associates of Shenhua Group, fellow subsidiaries and associates of the Group

The Group had the following transactions with Shenhua Group, associates of Shenhua Group, fellow subsidiaries and associates of the Group that were carried out in the normal course of business during both periods except for the 2015 Acquisitions as detailed in Note 4:

		Six months ended 30 June	
		2016	2015
		RMB million	<i>RMB million</i>
		(Unaudited)	(Unaudited)
		(Restated)	
Interest income	(i)	297	423
Income from entrusted loans	(ii)	16	18
Interest expense	(iii)	123	134
Purchases of ancillary materials and spare parts	(iv)	366	604
Mining service income	(v)	–	55
Ancillary and social services	(vi)	80	125
Transportation service income	(vii)	64	119
Transportation service expense	(viii)	–	74
Sale of coal	(ix)	1,993	2,136
Purchase of coal	(x)	1,879	2,265
Property leasing	(xi)	31	26
Repairs and maintenance services expense	(xii)	–	–
Coal export agency expense	(xiii)	4	2
Purchase of equipment and construction work	(xiv)	503	725
Sale of coal chemical product	(xv)	1,510	1,571
Other income	(xvi)	896	1,063
Granting of loans	(xvii)	2,584	3,601
Repayment of loans	(xviii)	2,650	4,360
Granting of entrusted loan	(xix)	–	–
Repayment of entrusted loan	(xx)	–	–
Receipt of deposits by Shenhua Finance	(xxi)	(10,538)	7,716
Loans from Shenhua Group	(xxii)	–	700
Repayment of loans from Shenhua Group	(xxiii)	1,818	2,000

- (i) Interest income represents interest earned from loans to Shenhua Group and fellow subsidiaries. The applicable interest rate is determined in accordance with the prevailing interest rates published by the People's Bank of China (the "PBOC").
- (ii) Income from entrusted loans represents interest earned from entrusted loans to an associate of the Group. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.
- (iii) Interest expense represents interest incurred from deposits placed and loans from Shenhua Group and fellow subsidiaries. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

29. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) Transactions with Shenhua Group, associates of Shenhua Group, fellow subsidiaries and associates of the Group (Continued)
- (iv) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies related to the Group's operations from fellow subsidiaries.
 - (v) Mining service income represents income earned from coal mining services to fellow subsidiaries.
 - (vi) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen expense paid to Shenhua Group, fellow subsidiaries and associates of the Group.
 - (vii) Transportation service income represents income earned from fellow subsidiaries in respect of coal transportation services.
 - (viii) Transportation service expense represents expense related to coal transportation service provided by fellow subsidiaries.
 - (ix) Sale of coal represents income from sale of coal to fellow subsidiaries.
 - (x) Purchase of coal represents coal purchased from fellow subsidiaries and associates of the Group.
 - (xi) Property leasing represents rental paid or payable in respect of properties leased from fellow subsidiaries.
 - (xii) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by fellow subsidiaries and an associate of the Group.
 - (xiii) Coal export agency expense represents expense related to coal export agency services provided by a fellow subsidiary.
 - (xiv) Purchase of equipment and construction work represents expenditure related to equipment and construction service provided by fellow subsidiaries.
 - (xv) Sale of coal chemical product represents income from sale of coal chemical product to fellow subsidiaries.
 - (xvi) Other income includes agency income, repairs and maintenance service income, sales of ancillary materials and spare parts, management fee income, sales of water and electricity, financial service income, etc.
 - (xvii) Granting of loans from Shenhua Finance represents loans granted by Shenhua Finance to fellow subsidiaries.
 - (xviii) Repayment of loans from Shenhua Finance represents loans repaid by fellow subsidiaries to Shenhua Finance.
 - (xix) Granting of entrusted loan represents an entrusted loan granted to an associate of the Group.
 - (xx) Repayment of entrusted loan represents an entrusted loan repaid by an associate of the Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

29. RELATED PARTY TRANSACTIONS (CONTINUED)**(a) Transactions with Shenhua Group, associates of Shenhua Group, fellow subsidiaries and associates of the Group (Continued)**

(xxi) Receipt of deposits by Shenhua Finance represents net deposits received by Shenhua Finance from Shenhua Group and fellow subsidiaries.

(xxii) Loans obtained by the Group from Shenhua Group and fellow subsidiaries.

(xxiii) Repayment of loans from Shenhua Group and fellow subsidiaries by the Group.

The Directors are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and in accordance with the agreements governing such transactions.

The amounts due from/to Shenhua Group, associates of Shenhua Group, fellow subsidiaries and associates of the Group are as follows:

	At 30 June 2016 RMB million (Unaudited)	31 December 2015 RMB million (Audited)
Accounts and bills receivable	3,975	3,959
Prepaid expenses and other current assets	2,616	4,023
Other non-current assets	12,942	12,128
Total amounts due from Shenhua Group, associates of Shenhua Group, fellow subsidiaries and associates of the Group	19,533	20,110
Borrowings	5,606	7,424
Accounts payable	2,287	2,245
Accrued expenses and other payables	20,098	26,406
Total amounts due to Shenhua Group, associates of Shenhua Group and fellow subsidiaries, and associates of the Group	27,991	36,075

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

29. RELATED PARTY TRANSACTIONS (CONTINUED)**(b) Compensation of key management personnel**

The remuneration of Directors and other members of key management personnel during the period was as follows:

	Six months ended 30 June	
	2016	2015
	RMB million	<i>RMB million</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	3	3
Post-employment benefits	–	–
	3	3

The above remuneration is included in “personnel expenses” as disclosed in Note 9.

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details of the Group’s post-employment benefit plans are disclosed in Note 30.

(d) Transactions with other government-related-entities in the PRC

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government (“government-related-entities”).

Other than those transactions with Shenhua Group, associates of Shenhua Group, fellow subsidiaries and associates of the Group as disclosed above, the Group conducts business with other government-related-entities which include but are not limited to the following:

- Power sales;
- Sales and purchases of coal;
- Transportation services;
- Construction work;
- Purchases of ancillary materials and spare parts;
- Ancillary and social services; and
- Financial services arrangements.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

29. RELATED PARTY TRANSACTIONS (CONTINUED)**(d) Transactions with other government-related-entities in the PRC (Continued)**

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not government-related. The Group has established its pricing policies in respect of sale of goods and provision of services, and approval process for purchases of products and services. Such policies and approval process apply to all counter-parties regardless of whether the counterparty is government-related or not.

Having considered the potential impact of the Group's pricing strategy and approval process on the transaction with the government-related-entities, the Directors are of the opinion that the disclosure of the following information are required:

(i) Transactions with other government-related entities, including state-controlled banks in the PRC

	Six months ended 30 June	
	2016 RMB million (Unaudited)	2015 <i>RMB million</i> (Unaudited) (Restated)
Coal revenue	27,262	29,809
Power revenue	31,440	35,331
Transportation costs	3,652	5,069
Interest income	158	289
Interest expenses	2,358	2,735

(ii) Balances with other government-related entities, including state-controlled banks in the PRC

	At 30 June 2016 RMB million (Unaudited)	At 31 December 2015 <i>RMB million</i> (Audited)
	Accounts and bills receivable	15,461
Prepaid expenses and other current assets	828	1,396
Cash and time deposits at banks	68,588	43,233
Restricted bank deposits	5,324	4,611
Borrowings	66,786	59,567
Accrued expenses and other payables	1,898	2,725

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

30. EMPLOYEE BENEFITS PLAN

In addition to a minimal defined benefit plan operated by its subsidiary, the Group participates, in line with the regulations of the PRC, mainly in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 20% of the salaries, bonuses and certain allowances of the employees. In addition, as approved by the government, the Group makes contribution to a supplemental defined contribution pension plan for its employees. The fund is managed by a qualified fund manager. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the six months ended 30 June 2016 were RMB1,359 million (six months ended 30 June 2015: RMB1,357 million).

31. SEGMENT AND OTHER INFORMATION

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM"), including president, senior vice president and chief financial officer, for the purposes of resource allocation and performance assessment, the Group has presented the following six reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (1) Coal operations – which produce coal from surface and underground mines, and the sale of coal to external customers, the power operations segment and the coal chemical operations segment. The Group sells its coal under long-term supply contracts, which allow periodical price adjustments, and at spot market.
- (2) Power operations – which use coal from the coal operations segment and external suppliers, wind power, water power and gas power to generate electric power for the sale to coal operations segment and external customers. Electric power is sold to the power grid companies in accordance with planned power output at the tariff rates as approved by the relevant government authorities. Electric power produced in excess of the planned power output is sold at the tariff rate as agreed upon with the respective power grid companies which are generally lower than the tariff rates for planned power output.
- (3) Railway operations – which provide railway transportation services to the coal operations segment, the power operations segment, the coal chemical operations segment and external customers. The rates of freight charges billed to the coal operations segment, the power operations segment, the coal chemical operations segment and external customers are consistent and do not exceed the maximum amounts approved by the relevant government authorities.
- (4) Port operations – which provide loading, transportation and storage services to the coal operations segment and external customers. The Group charges service fees and other expenses, which are reviewed and approved by the relevant government authorities.
- (5) Shipping operations – which provide shipment transportation services to the power operations segment, the coal operations segment and external customers. The rates of freight charges billed to the power operations segment, the coal operations segment and external customers are consistent.
- (6) Coal chemical operations – which use coal from the coal operations segment to first produce methanol and further process into polyethylene and polypropylene, together with other by-products, for sale to external customers.

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

31. SEGMENT AND OTHER INFORMATION (CONTINUED)

- (b) Reconciliations of reportable segment revenue, segment profit and other items of profit or loss for the six months ended 30 June 2016 and 2015:

	Reportable segment amounts		Unallocated head office and corporate items		Elimination of inter-segment amounts		Consolidated	
	2016 RMB million	2015 RMB million (Restated)	2016 RMB million	2015 RMB million (Restated)	2016 RMB million	2015 RMB million (Restated)	2016 RMB million	2015 RMB million (Restated)
Revenue	107,219	118,094	979	892	(29,475)	(28,985)	78,723	90,001
Profit before income tax	19,683	23,039	27	(22)	(199)	(323)	19,511	22,694
Interest expenses	2,661	2,121	957	1,239	(1,269)	(1,367)	2,349	1,993
Depreciation and amortization	12,000	11,088	151	86	-	-	12,151	11,174
Share of results of associates	33	126	2	3	-	-	35	129
Impairment loss	5	414	-	(17)	-	-	5	397

- (c) Other information

Certain other information of the Group's segments for the six months ended 30 June 2016 and 2015 is set out below:

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)	2016 RMB million (Unaudited)	2015 RMB million (Unaudited)
Coal purchased	6,925	9,673	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,925	9,673
Cost of coal production	16,512	18,555	-	-	-	-	-	-	-	-	-	-	-	-	(820)	(946)	15,692	17,609
Cost of coal transportation	20,630	18,413	-	-	6,921	6,463	999	959	508	606	-	-	-	-	(22,880)	(22,559)	6,178	3,882
Power cost	-	-	22,950	24,220	-	-	-	-	-	-	-	-	-	-	(4,987)	(4,554)	17,963	19,666
Cost of coal chemical production	-	-	-	-	-	-	-	-	-	-	1,761	2,063	-	-	(139)	(209)	1,622	1,854
Others	1,841	5,917	220	511	1,100	952	125	72	250	318	227	256	45	105	-	-	3,008	8,131
Total cost of sales	45,908	52,558	23,170	24,731	8,021	7,415	1,124	1,031	758	924	1,988	2,319	45	105	(28,826)	(28,268)	52,188	60,815
Profit (loss) from operations (note (iii))	5,155	7,623	8,167	10,452	7,657	5,265	1,169	567	72	35	(127)	563	523	471	(649)	(717)	21,967	24,259
Additions to non-current assets (note (i))	1,014	1,763	5,266	7,488	1,123	2,171	515	351	1	76	93	86	12	21	-	-	8,024	11,956

Notes to the Condensed Consolidated Financial Statements (Continued)

for the six months ended 30 June 2016

31. SEGMENT AND OTHER INFORMATION (CONTINUED)**(c) Other information (Continued)**

Certain other information of the Group's segments for the six months ended 30 June 2016 and 2015 is set out below: (Continued)

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total			
	June 30 2016	December 31 2015	June 30 2016	December 31 2015	June 30 2016	December 31 2015	June 30 2016	December 31 2015	June 30 2016	December 31 2015	June 30 2016	December 31 2015	June 30 2016	December 31 2015	June 30 2016	December 31 2015	June 30 2016	December 31 2015		
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	
	million	million	million	million	million	million	million	million	million	million	million	million	million	million	million	million	million	million	million	
	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)	(Unaudited)	(audited)
Total assets (note (i))	195,833	246,972	210,515	229,773	123,995	124,661	22,386	22,303	8,145	8,189	12,240	12,564	360,017	348,720	(367,684)	(433,391)	565,447	559,791		
Total liabilities (note (i))	(110,540)	(115,814)	(128,797)	(131,373)	(56,685)	(61,284)	(10,694)	(10,950)	(2,312)	(2,363)	(5,553)	(5,593)	(137,638)	(185,478)	259,066	316,985	(193,153)	(195,670)		

Notes:

- (i) Non-current assets exclude financial instruments and deferred tax assets.
- (ii) Unallocated items of total assets include deferred tax assets and other unallocated corporate assets. Unallocated items of total liabilities include deferred tax liabilities and other unallocated corporate liabilities.
- (iii) Profit (loss) from operations is calculated as revenue minus cost of sales, selling expenses, general and administrative expenses and impairment loss.

Documents Available for Inspection

Documents available for inspection	<p>The interim report for the year 2016 signed by the Chairman</p> <p>The financial statements signed and sealed by the Chairman, the Chief Financial Officer, and the General Manager of the Financial Department</p> <p>The original copy of the review report sealed by the accounting firm and signed and sealed by the certified public accountants</p> <p>The original copies of all documents and announcements of the Company publicly disclosed in the newspapers designated by the CSRC during the reporting period</p> <p>The interim report for the year 2016 published on the Shanghai Stock Exchange and the Hong Kong Stock Exchange</p>
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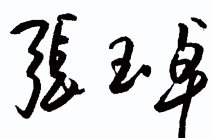
Zhang Yuzhuo, *Chairman*

Approval date of the board of directors for submission: 26 August 2016

Signing Page for Opinions

Pursuant to Article 68 of the Securities Law of the People's Republic of China and Article 11 of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No.3 – The Contents and Formats of Interim Report (Revised Edition 2014), having fully understood and reviewed the 2016 Interim Report of the Company, the directors, supervisors and senior management are of the opinion that information disclosed in the 2016 Interim Report is true, accurate and complete. We hereby guarantee that the information stated in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the content thereof.

DIRECTORS



(Zhang Yuzhuo)



(Ling Wen)



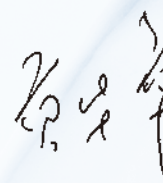
(Han Jianguo)



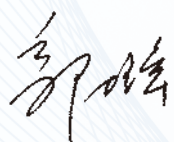
(Li Dong)




(Fan Hsu Lai Tai)



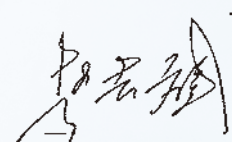
(Gong Huazhang)



(Guo Peizhang)




(Chen Hongsheng)



(Zhao Jibin)

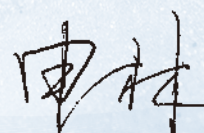
SUPERVISORS



(Zhai Richeng)



(Zhou Dayu)



(Shen Lin)

Signing Page for Opinions

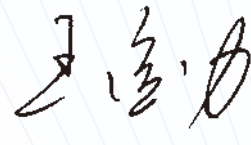
SENIOR MANAGEMENT



(Han Jianguo)



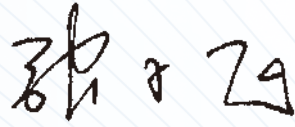
(Li Dong)



(Wang Jinli)



(Wang Yongcheng)



(Zhang Zifei)



(Wang Shumin)



(Zhang Jiming)



(Huang Qing)



(Zhang Kehui)