



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

**Promote construction under the
"Belt & Road" initiative through
motivation of coal-fired projects**



2017
Interim Report




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 fifth meeting of the fourth session of the board of directors of the Company, all directors of the Company were present at the board meeting.
- III. The interim financial statements in this report is unaudited. Deloitte Touche Tohmatsu has issued a report on the review of the interim financial statements for 2017 prepared under the International Financial Reporting Standards.
- IV. Ling Wen, vice 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 report 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. Disclaimer of forward-looking statements: 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. Warning on Major Risks: Investors please note that the Company has disclosed risks including market competition, industrial policies, environmental protection and safety production, etc. in the section headed "Discussion and Analysis on Operation Results".

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Cover photo: The coal-fired power plant of EMM Indonesia and local staff of Jawa Company, subsidiaries of the Company

Section I Definitions

Unless the context otherwise requires, the following terms used in this report have the following meanings:

Shenhua Group Corporation	Shenhua Group Corporation Limited
Shenhua Group	Shenhua Group Corporation Limited and its controlling subsidiaries
China Shenhua/the Company	China Shenhua Energy Company Limited
The Group	The Company and controlling 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.
Shuohuang Railway Company	Shuohuang Railway Development Co., Ltd.
Railway Transportation Company	Shenhua Railway Transportation Co., Ltd.
Shenhua Trading Group	Shenhua Trading Group Limited
Huanghua Harbour Administration Company	Shenhua Huanghua Harbour Administration 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.
Shenhua 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.
Xinjie Energy Company	Shenhua Xinjie Energy Co., Ltd.
Shenwan Energy Company	Shenwan Energy Company Limited
Fujian Energy Company	Shenhua Fujian Energy Co., Ltd.
Shenhua Finance Company	Shenhua Finance Co., Ltd.
EMM Indonesia	PT.GH EMM INDONESIA
Panshan Power	Tianjin Guohua Panshan Power Generation Co., Ltd.

Section I Definitions (Continued)

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.
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-fired Power	Shenhua Guohua (Beijing) Gas-fired Power Co., Ltd.
Shouguang Power	Shenhua Guohua Shouguang Power Generation Company Limited
Liuzhou Power	Shenhua Guohua Guangtou (Liuzhou) Power Generation Co., Ltd.
Guohua Ningdong	Shenhua Ningxia Guohua Ningdong Power Generation Co., Ltd.
Shenhua Guangdong Power Sales Company	Shenhua Guohua Guangdong Power Sales Co., Ltd.

Section I Definitions (Continued)

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
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 + 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

Section II Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

Chinese Name of the Company	中國神華能源股份有限公司
Abbreviation of Chinese Name of the Company	中國神華
English Name of the Company	China Shenhua Energy Company Limited
Abbreviation of English Name of the Company	CSEC/China Shenhua
Legal Representative of the Company (Acting)	Ling Wen
Authorised Representatives of the Company under the Hong Kong Listing Rules	Ling Wen, Huang Qing

Note: On 27 March 2017, Dr. Zhang Yuzhuo resigned as chairman, executive director and relevant positions in the committees under the Board of the Company. Pursuant to the Articles of Association, Dr. Ling Wen, being vice chairman, shall perform the duties and powers of the chairman of the Company before the new chairman of the Company is elected.

II. CONTACTS AND CONTACT DETAILS

	Secretary to the Board	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

	Board and Supervisory Committee Affairs and Investor Relations Department of the Company	Hong Kong Office of the Company
Address	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)	Room B, 60th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong
Tel	(8610) 5813 1088/3399/3355	(852) 2578 1635
Fax	(8610) 5813 1804/1814	(852) 2915 0638

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
Company Website	http://www.csec.com or http://www.shenhuachina.com
E-mail	ir@shenhua.cc

Section II Company Profile and Major Financial Indicators (Continued)

IV. INFORMATION DISCLOSURE AND PLACE FOR DOCUMENT INSPECTION

Designated Newspaper for Information Disclosure	China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Internet website for publishing interim report	http://www.sse.com.cn and http://www.hkex.com.hk
Interim report is available at	Shanghai Stock Exchange, Board and Supervisory Committee Affairs and Investor Relations Department of the Company and Hong Kong Office of the Company

V. BASIC INFORMATION ON SHARES

Type	Stock Exchange	Abbreviation	Stock Code
A Share	Shanghai Stock Exchange	China Shenhua	601088
H Share	Hong Kong Stock Exchange	China Shenhua	01088

VI. OTHER INFORMATION

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

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

Section II Company Profile and Major Financial Indicators (Continued)

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

	Unit	In the first half of 2017	In the first half of 2016	Change %
Revenue	RMB million	120,518	78,723	53.1
Profit for the period	RMB million	30,839	14,810	108.2
Profit for the period attributable to equity holders of the Company	RMB million	26,298	10,827	142.9
Basic earnings per share	RMB/share	1.322	0.544	142.9
Net cash generated from operating activities	RMB million	47,637	38,207	24.7
Net cash generated from operating activities excluding the effect from Shenhua Finance Company	RMB million	44,653	48,181	(7.3)

	Unit	As at 30 June 2017	As at 31 December 2016	Change %
Total assets	RMB million	612,680	576,729	6.2
Total liabilities	RMB million	254,902	191,760	32.9
Total equity	RMB million	357,778	384,969	(7.1)
Equity attributable to equity holders of the Company	RMB million	284,242	316,975	(10.3)
Total share capital at the end of the period	RMB million	19,890	19,890	0.0

Section II Company Profile and Major Financial Indicators (Continued)

VIII. DIFFERENCES IN ACCOUNTING DATA UNDER DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

Unit: RMB million

	Net profit attributable to equity holders of the Company		Net assets attributable to equity holders of the Company	
	In the first half of 2017	In the first half of 2016	As at 30 June 2017	As at 31 December 2016
Under China Accounting Standards for Business Enterprises	24,315	9,828	279,968	312,357
Adjustment: Simple production maintenance, safety production and other related expenditures	1,983	999	4,274	4,618
Under International Financial Reporting Standards	26,298	10,827	284,242	316,975

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 profit or loss and separately recorded as a specific reserve in shareholders' equity. 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 in profit or loss as and 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.

Section III Business Overview

I. EXPLANATION ON PRINCIPAL BUSINESSES AND OPERATION MODEL OF THE COMPANY AND INDUSTRY CONDITIONS DURING THE REPORTING PERIOD

China Shenhua Energy Company Limited was established by Shenhua Group Corporation, who acted as the sole promoter, in Beijing in November 2004. China Shenhua was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June 2005 and October 2007, respectively.

The Group is principally engaged in the production and sale of coal and electricity, railway, port and shipping transportation, and coal-to-olefins businesses. The integration of coal, power, railway, port, shipping and coal chemical into one unified operation chain is the Group's unique operation and profitability model. The Group's development strategy is "transforming into a world first-class supplier of clean energy".

During the reporting period, the Group made no significant change in the scope of its principal businesses.

For industry conditions in which the Group operates, please refer to the section "Discussion and Analysis on Operation Results" in the report.

II. EXPLANATION ON MATERIAL CHANGES IN MAJOR ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

There were no substantial changes in the major assets of the Group during the reporting period.

As of 30 June 2017, the Group's total assets amounted to RMB612,680 million, representing an increase of 6.2% as compared with that at the end of 2016, and the equity attributable to equity holders of the Company amounted to RMB284,242 million, representing a decrease of 10.3% as compared with that at the end of 2016. The total offshore assets of the Group (including Hong Kong, Macau and Taiwan) amounted to RMB23,989 million, representing 3.9% to total assets, which are mainly composed of the assets from USD bonds issued in Hong Kong, PRC, and coal mine and power generation assets in Australia and Indonesia.

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

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

The core competitiveness of the Group mainly includes: (1) the vertical integration operation model of coal, power, railway, port and shipping operations; (2) premium and abundant coal resources; (3) a management team with the dedication to the principal business of the Company and an advanced operation 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, heavy-loaded railway transportation and coal-to-olefins; (5) pursuant to the Non-competition Agreement entered into by and between the Company and Shenhua Group Corporation, the controlling shareholder of the Company, the Company is granted options and pre-emptive rights as well as pre-emptive right to acquire and be transferred from Shenhua Group Corporation any business opportunities and assets which may pose potential competition.

Section IV Board's Statement

Dear Shareholders,

On behalf of the Board, I am delighted to present the 2017 interim report of China Shenhua and to report to all shareholders on the Company's performance for the period.

In the first half of 2017, the PRC government adhered to the general principle of making progress while ensuring stability, emphasised on the mainline of pushing forward supply-side structural reform, and focused on improving quality and efficiency. As such, the economy revealed further signs of steady growth with favourable momentum. The supply and demand in the coal market of the PRC was balanced in general, with tight supply in some seasons and regions. While both consumption and supply increased over the same period last year, the price of coal fluctuated due to the relationship between supply and demand and seasonal change. The power consumption of the whole society grew at a faster pace as compared with the same period last year, with thermal power generation recording an obvious rebound as compared with the same period last year.

China Shenhua adhered to clean development to seize market opportunities, strengthen operation management, market expansion as well as quality and efficiency improvement, thereby achieving favourable operating results. In the first half of 2017, the Company recorded revenue of RMB120,518 million, representing a year-on-year increase of 53.1%, profit for the period of RMB30,839 million, profit for the period attributable to equity holders of the Company of RMB26,298 million and basic earnings per share of RMB1.322, representing a year-on-year increase of 108.2%, 142.9% and 142.9%, respectively.

As at 30 June 2017, the total market capitalisation of China Shenhua reached USD61.6 billion, ranking the first among all listed coal companies worldwide and the fourth among all listed integrated mining companies globally. International credit rating agencies, Moody's and Fitch, maintained the sovereign rating of the international credit rating of China Shenhua.

THE FIRST HALF OF 2017: STRENGTHENING OPERATION MANAGEMENT, ACTIVELY EXPANDING MARKET, AND CREATING FAVOURABLE OPERATING RESULTS

Further Reveal of the Advantages of Integration

The Company actively adjusted the operating strategies according to market changes and strived to make greater contribution from its coal and transportation business to the profitability of the Company by leveraging on the advantages of integration so as to achieve the maximum value. In accordance with the International Financial Reporting Standards, before elimination on consolidation, the Company realised a profit from operations of RMB24,378 million from the coal business, RMB10,008 million from the transportation business and RMB3,237 million from the power business for the first half of 2017, representing 64%, 26% and 9% of the total profit from operations, respectively. The synergy, complementarity and effective operation of the three business segments reflected the strong adaptability and competitiveness of the business structure of the Company.

Achievement of New Level for All Business Segments

Coal segment: The Company adjusted coal production in a timely manner and strived to showcase the advantages of safe mines with advanced capacity so as to ensure efficient production and supply in accordance with the industry policies and the changes in supply and demand in the market. The Company actively promoted the commencement of coal capacity replacement and application for increasing scientific production capacity to increase the advanced capacity of coal mines. The production volume of commercial coal reached 151.7 million tonnes for the first half of the year, representing a year-on-year increase of 8.6%.

Section IV Board's Statement (Continued)

A professional portrait of Ling Wen, Vice Chairman, seated at a dark wooden table. He is wearing a dark blue pinstriped suit jacket, a light blue dress shirt, and an orange patterned tie. The background is a bright blue sky with white clouds and a green field at the bottom.

Ling Wen
Vice Chairman

Section IV Board's Statement (Continued)

The Company timely adjusted the strategy of coal sale and focused on raising the sales volume of the seaborne coal with the highest unit gross profit margin by enhancing the organisation of coal procured externally, in turn maintaining supply while maximising sales efficiency. It established a liner shipping schedule under the selling system to improve the stability of coal supply while striving to guarantee the fulfilment rate of the contract by signing more long-term contracts on coal. The sales volume of coal reached 220.5 million tonnes for the first half of the year, representing a year-on-year increase of 18.4%, of which seaborne coal reached 131.8 million tonnes, representing a year-on-year increase of 17.4%.

Power segment: The Company seized the opportunities arising from the demand growth of national electricity consumption and the favourable condition of thermal power generation, strengthened the management of the reliability of the power generators as well as the volume of power generation to ensure the stability of the power business. The gross power generation reached 122.05 billion kWh while the total power output dispatch reached 114.43 billion kWh for the first half of the year, representing a year-on-year increase of 9.9% and 10.1%, respectively.

The Company actively addressed to the power market reform, actively participated in the market competition of direct power supply to large power users and accelerated the construction of regional power sales companies to maintain its market share. The average utilisation hours of coal-fired power generators were 2,185 hours, surpassing the national average utilisation hours of coal-fired power generators by 145 hours, with an obvious increase in the proportion of the sales volume of direct power to total power output dispatch.

Transportation segment: The Company overcame the impact of unbalanced transportation volume for the first half of 2017, strengthened the connection and management between the upstream and the downstream, increased the number of vehicles and motor vehicles with the capacity of 10,000 tonnes and effectively improved the management system of turnover of trains, which substantially enhanced the coal transportation efficiency and significantly increased the transportation capacity of railways and the volume of seaborne coal at its own ports, which recorded a record high over the same periods to ensure integrated operation at high level. In the first half of the year, the Company completed 136.4 billion tonne km of transportation turnover of self-owned railway and 112.9 million tonnes of volume of seaborne coal at its own ports, representing a year-on-year increase of 13.9% and 13.7%, respectively.

Coal chemical segment: After the major renovation of coal-to-olefins installation completed in the first half of 2016, the Company continued to optimise production plans, strived to heighten production efficiency and developed sales channels in order to maintain operational stability. The sales volume of coal-to-olefins products reached 342.2 thousand tonnes for the first half of 2017, representing a year-on-year increase of 34.5%.

“Macroscopic Logistics” Achieved Desirable Results

In addition to securing transportation for its coal business, the Company further strengthened management and expanded the market, in turn achieving desirable results in “macroscopic logistics”. Firstly, the Company strengthened the strategic partnership with major customers and captured the opportunity brought along with the policy on the gradual prohibition of receiving coals transported by cars in Bohai Bay to attract new customers, thus railway transportation capacities were fully utilised. Secondly, through carrying out “macroscopic logistics” transportation business in a long-distance and pendulum manner, the Company effectively expanded the scale of transportation of non-coal materials and reverse transportation. Thirdly, relying on big data and new technology equipment, the Company promoted the establishment of a smart logistic system for multi-transportation. The transportation volume of railway transportation services of the railway segment provided to external customers was 103.7 million tonnes, representing a year-on-year increase of 27.7%, and the revenue from external customers was RMB2,679 million, representing a year-on-year increase of 54.1%.

Section IV Board's Statement (Continued)

Continuously Promoting Clean Development

The Company continued to promote the “ultra-low emission” renovation of coal-fired generating units and completed “ultra-low emission” renovation of 3,100 MW generating units for the first half of 2017, and the total installed capacity of generating units with “ultra-low emission” reached 39,870MW, accounting for 73.1% of the total installed capacity of all coal-fired power generating units of the Company, which allowed the all coal-fired generating units in the Beijing-Tianjin-Hebei region and the six major provinces and cities such as Anhui and Shandong to achieve “ultra-low emission”. The emission performance for soot, sulphur dioxide and nitrogen oxides of coal-fired power generators for the first half of 2017 reduced by 34.3%, 21.2% and 16.9%, respectively as compared with the same period last year, maintaining leading standards domestically. As of the end of June, 57 “ultra-low emission” coal-fired generating units were supported by policies including tariff subsidies, which increased the competitiveness of the power business. The Company actively promoted and applied its capability in clean coal-fired technology when engaging in international cooperation.

Devoting to exploring green and efficient production and utilization methods of coal, the Company accelerated the promotion of the establishment of digital mines and ecological construction and strengthened the management of key technology innovation projects, such as “Key Technology and Demonstration Project on Green Coal Mining” and “Research and Industrialization Demonstration of Technology of Alumina Extraction from Fly Ash”, so as to support the clean development of the coal business of the Company.

Achieving New High in Safety and Environmental Protection Works

The Company practically promoted the construction of risk prevention in advance and safety control system, and made more efforts in safety inspection and control, in order to improve the standard of safety management works on an ongoing basis. In the first half of 2017, the Company continued to maintain excellent performance of zero fatality rate per million tonne of coal output of coal mines, for which China Shenhua maintained a world-leading level in respect of safety production.

The Company promoted the construction of key environmental engineering works in an orderly manner and strengthened risk control with an aim to further advance the level of energy conservation and environmental protection of the Company. The power segment actively commenced fundamental works on carbon emission reduction and carbon transaction.

Continuous Improvement in Quality Promotion and Efficiency Enhancement

The Company further optimized the budget management and cost assessment mechanism to reinforce control over budget, endeavoured to reduce cost of sales through refined management. In the first half of 2017, there was a significant year-on-year decrease of controllable costs such as raw materials, fuels and power in production cost of coal production units, while the finance costs of the Company represented a year-on-year decrease of 20.9%.

The Company paid great efforts in bank account management and information inspection to further enhance the safety management of capital. Moreover, the Company implemented reform, innovation and optimization of material management to the greatest extent, promoted the mutual storage and sharing of inventory material, controlled the increase of inventory and endeavoured to create efficiency through material management.

Section IV Board's Statement (Continued)

THE SECOND HALF OF 2017: FURTHER LEVERAGING ADVANTAGES, IMPROVING EFFICIENCY AND BREAKING TRACK RECORDS

For the second half of 2017, the stable economic development of the PRC with good momentum will be beneficial to the stability and growth of demand for various energy resources, such as coal. The supply and demand in the national coal market will continue to be balanced with slightly loose relationship between supply and demand, while the demand for thermal coals remains stable with increase. The demand for national electricity will maintain such growing momentum and the growth rate is estimated to be flat as compared with that of 2016.

To ensure the production conducted as requested by laws and regulations and create greater value for the shareholders, the Company prudently analysed the market environment and the actual condition of the Company and made an adjustment to the business targets: the commodity coal production volume target of the Company reduced to 278 million tonnes, the coal sales volume target reduced to 396 million tonnes, the power output dispatch target increased to 229.0 billion kWh, the revenue target increased to RMB221.5 billion and the cost of sales target increased to RMB149.9 billion throughout the year.

China Shenhua will further leverage the advantages of integrated operation, enhance the coordination and organisation of coal production, transportation and marketing and endeavour to achieve favourable operating performance. Key emphasis will be placed on the following aspects:

Improving the efficiency of integrated operation and maintaining sustainable development.

Firstly, the Company will proactively implement the policy of replacement of existing capacities with less amount and release of advanced capacity, optimize the production organisations based on the supply and demand and endeavour to increase the productivity of mines with advanced capacity. The Company will adopt effective measures to mitigate the adverse influence brought by the reduction and suspension of production in Ha'erwusu and Baorixile open-pit mines. Focusing on improving the sales volume of seaborne coal with the best efficiency, the Company will further increase the sales volume of high-quality coal and high value-added special coal, increase market share and maintain sales revenue by seizing the most suitable timing for heat supply in winter, implement works on purchased coals to satisfy market demand and maintain the fulfilment rate of contracted coal to maintain coal price at a relatively stable level. Secondly, the Company will strengthen the refined management of power plants, further promote the business of direct power supply to large internal and external power users and speed up the establishment of a marketing system which is in line with the market practice, which strive to raise power output dispatch volume and the higher average level of utilisation hours of generators than those of the same type of generators in the same regions. Thirdly, the Company will further improve market expansion of its "macroscopic logistics business" and steadily push forward the business development of the transportation of lump coal with containers to develop its potential to generate revenue. It will accelerate its progress on promoting the establishment of an "internet +" smart logistic system so as to ensure the sustainable development of Shenhua's "macroscopic logistics".

Optimising project management while further enhancing development quality. The Company will further strengthen the planning and management of capital expenditure. Through implementing the optimization of the risk assessment for project commencement and the tracking and evaluation mechanism for economic benefits of key projects, the Company will continuously improve the risk control and management level of investment projects. According to the investment return analysis on the total life cycle of projects, the Company will make investment in and commence construction on projects with preferable expected investment income step by step. The Company will proactively promote the project construction including the construction of Huangda Railway and Huanghua Port Two-way Channel and other projects. The construction of coal-fired power projects of Sumsel-1 Coal Power (2 × 300MW) and Jawa-7 Coal Power (2 × 1,000MW) in Indonesia will be accelerated. The Company will rely on the driving of coal power projects, and grasp the construction opportunities from the "Belt and Road Initiative".

Section IV Board's Statement (Continued)

Promoting safe, environmental and innovative development to strengthen the drivers for development. The Company will continue to strengthen the implementation of the safety overhaul and devote more efforts to risk control over hidden safety hazards, striving to maintain “zero fatality” in its safety production. It will further optimise assessment and accountability mechanisms and the establishment of the on-line monitoring platform of environmental safety, improve the work in energy conservation and environmental protection of the whole industry chain. The Company will continue to promote the “ultra-low emission” renovation of coal-fired generating units. In the second half of 2017, the Company targeted to complete renovation for 10 of its coal-fired generating units of approximately 6,220 MW, striving to be the model among “green” coal-fired enterprises. The Company will make more investment in scientific research in order to cultivate technology innovation systems and mechanisms that adapt to the development of the Company and accelerate the industrialization of the technology innovation outcome.

Facilitating the reformation in a steady pace and maintaining equity interests of shareholders. The Company will actively facilitate the reformation and orderly promote the trading of material assets in the interests of maximization to all of its shareholders.

In the second half of 2017, China Shenhua will work pragmatically with steady confidence. It will seize opportunities to facilitate the integration of various businesses and maintain a healthy and sustainable development in order to create greater value for investors.

Ling Wen
Vice Chairman

25 August 2017

Overview of China Shenhua's Operating Results for the First Half of 2017

Table 1 Operation Targets and Status of Completion

		Completed in the first half of 2017	Target for 2017 (after adjustment)	Percentage of completion %
Commercial coal production	100 million tonnes	1,517	2,78	54.6
Coal sales	100 million tonnes	2,205	3.96	55.7
Power output dispatch	billion kWh	114.43	229.0	50.0
Revenue	RMB100 million	1,205.18	2,215	54.4
Cost of sales	RMB100 million	776.15	1,499	51.8
Selling, general and administrative expenses and net finance costs	RMB100 million	60.71	147	41.3
Change in unit production cost of self-produced coal		Decreased by 4.0% year-on-year	flat year-on-year	/

Table 4 Operation Data

		The first half of 2017	The first half of 2016	Change %
Commercial coal production	million tonnes	151.7	139.7	8.6
Coal sales	million tonnes	220.5	186.3	18.4
Including: Self-produced coal	million tonnes	157.5	139.6	12.8
Purchased coal	million tonnes	63.0	46.7	34.9
Gross power generation	billion kWh	122.05	111.01	9.9
Total power output dispatch	billion kWh	114.43	103.90	10.1
Polyethylene sales	thousand tonnes	171.8	129.6	32.6
Polypropylene sales	thousand tonnes	170.4	124.8	36.5
Transportation turnover of self-owned railway	billion tonne km	136.4	119.8	13.9
Seaborne coal	million tonnes	131.8	112.3	17.4
Shipping volume	million tonnes	46.0	36.3	26.7
Shipment turnover	billion tonne nm	39.9	29.0	37.6

Table 9 Volume of Domestic Coal Sales

		The first half of 2017	Proportion of domestic sales %	The first half of 2016	Change %
Domestic sales	million tonnes	216.6	100.0	183.2	18.2
By region					
Northern China	88.4	40.7	93.0	(4.9)	
Eastern China	76.4	35.3	59.7	28.0	
Central China and Southern China	31.3	14.5	19.7	58.9	
Northeast China	14.5	6.7	9.4	54.3	
Others	6.0	2.8	1.4	328.6	
By usage					
Thermal coal	160.5	74.2	136.9	17.2	
Metallurgy	5.7	2.6	3.0	90.0	
Chemical (including coal slurry)	19.8	9.1	15.1	31.1	
Others	30.6	14.1	28.2	8.5	

Table 12 Coal Sales Price

		The first half of 2017		The first half of 2016		Change	
		Sales volume million tonnes	Percentage to total sales volume %	Sales volume million tonnes	Percentage to total sales volume %	Price RMB/tonne	Price %
I. Domestic sales		216.6	98.3	183.2	98.3	271	18.2
(I) Self-produced coal and purchased coal		209.5	95.1	180.9	97.0	273	15.8
1. Direct arrival		78.9	35.8	69.9	37.4	201	12.9
2. Seaborne		130.6	59.3	111.0	59.6	318	17.7
(II) Sales of domestic trading coal		6.6	3.0	4.17	2.2	128	200.0
(III) Sales of imported coal		0.5	0.2	580	0.1	366	400.0
II. Export sales		1.2	0.5	399	1.3	401	(7.7)
III. Overseas coal sales		2.7	1.2	376	1.8	179	50.0
(I) EMM Indonesia		0.9	0.4	92	0.9	71	-
(II) Re-export trade		1.8	0.8	511	0.9	293	100.0
Total sales volume/weighted average price		220.5	100.0	425	186.3	271	18.4
Including: Sales to external customers		175.7	79.7	433	145.4	274	20.8
Sales to internal power segment		42.5	19.3	394	39.1	265	8.7
Sales to internal coal chemical segment		2.3	1.0	363	1.8	185	27.8

Table 2 Financial Indicators

		The first half of 2017	The first half of 2016	Change %
Revenue	RMB million	1,205.18	78,723	53.1
Profit for the period	RMB million	30,839	14,810	108.2
EBITDA	RMB million	51,863	34,399	50.8
Profit for the period attributable to equity holders of the Company	RMB million	26,298	10,827	142.9
Basic earnings per share	RMB/share	1.322	0.544	142.9
Net cash generated from operating activities	RMB million	47,637	38,207	24.7
Net cash generated from operating activities excluding Shenhua Finance Company	RMB million	44,653	48,181	(7.3)

Table 5 Commercial Coal Production Volume

		The first half of 2017	The first half of 2016	Change %
Total production	million tonnes	151.7	139.7	8.6
By mines				
Shandong Mines	94.9	90.8	4.5	
Zhunge'er Mines	32.2	31.9	0.9	
Shengli Mines	8.3	6.1	36.1	
Baonxile Mines	15.0	9.6	56.3	
Baotou Mines	0.4	0.4	-	
EMM Indonesia	0.9	0.9	-	
By regions				
Inner Mongolia	100.5	90.1	11.5	
Shaanxi	48.2	46.5	3.7	
Shanxi	2.1	2.2	(4.5)	
Overseas	0.9	0.9	-	

Table 10 Status of Completion of Capital Expenditures

	Plans for 2017	Completed in the first half of 2017	Percentage of completion
Total amount	100 million	100 million	%
Specified investment project	100 million	100 million	%
Coal segment	28.8	13.12	45.6
Power segment	178.0	63.82	35.9
Transportation segment	83.1	20.41	24.6
Coal chemical business	3.5	0.28	8.0
Others	-	0.14	N/A
Total	350	293.4	97.77

Table 3 Segment Results

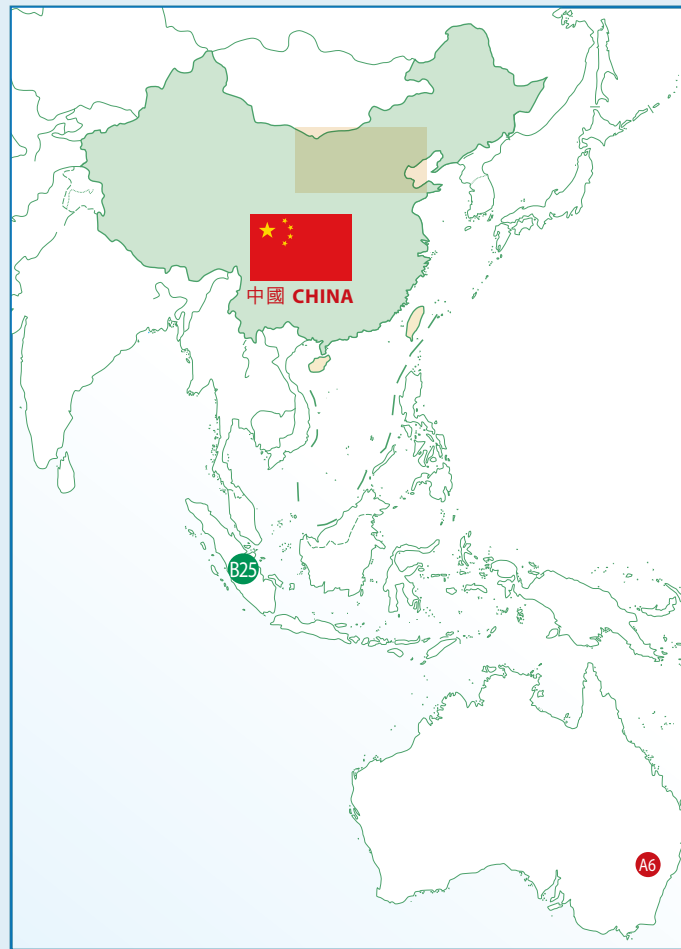
	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total		
	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	The first half of 2017	The first half of 2016	
Revenue from external customers	77,272	41,484	36,220	32,681	2,679	1,738	372	260	289	125	2,996	1,934	690	501	-	-	120,518	78,723	
Inter-segment revenue	18,759	11,513	212	122	15,827	14,465	2,425	2,142	1,159	765	-	-	499	478	(38,881)	(29,475)	-	-	
Sub-total of segment revenue	96,031	52,997	36,432	32,803	18,506	16,203	2,797	2,402	1,448	880	2,996	1,934	1,189	979	(38,881)	(29,475)	120,518	78,723	
Segment cost of sales	(69,507)	(46,025)	(31,769)	(23,398)	(9,637)	(8,061)	(1,354)	(1,141)	(1,121)	(759)	(2,612)	(2,006)	(16)	(51)	38,401	28,826	(77,615)	(52,635)	
Segment profit/loss from operations	24,378	5,155	3,237	8,167	8,409	7,657	1,329	1,169	270	72	319	(127)	836	523	(480)	(649)	38,298	21,967	
As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016
Segment total assets	216,731	198,140	214,429	207,879	130,174	125,152	25,121	22,489	7,784	8,038	11,295	11,621	410,496	377,853	(403,350)	(374,443)	612,680	576,729	
Segment total liabilities	(118,881)	(116,711)	(138,377)	(134,519)	(64,861)	(65,396)	(11,137)	(10,135)	(1,748)	(2,063)	(4,090)	(4,688)	(222,371)	(222,371)	306,564	278,929	(254,902)	(191,760)	

Table 6 Power Business

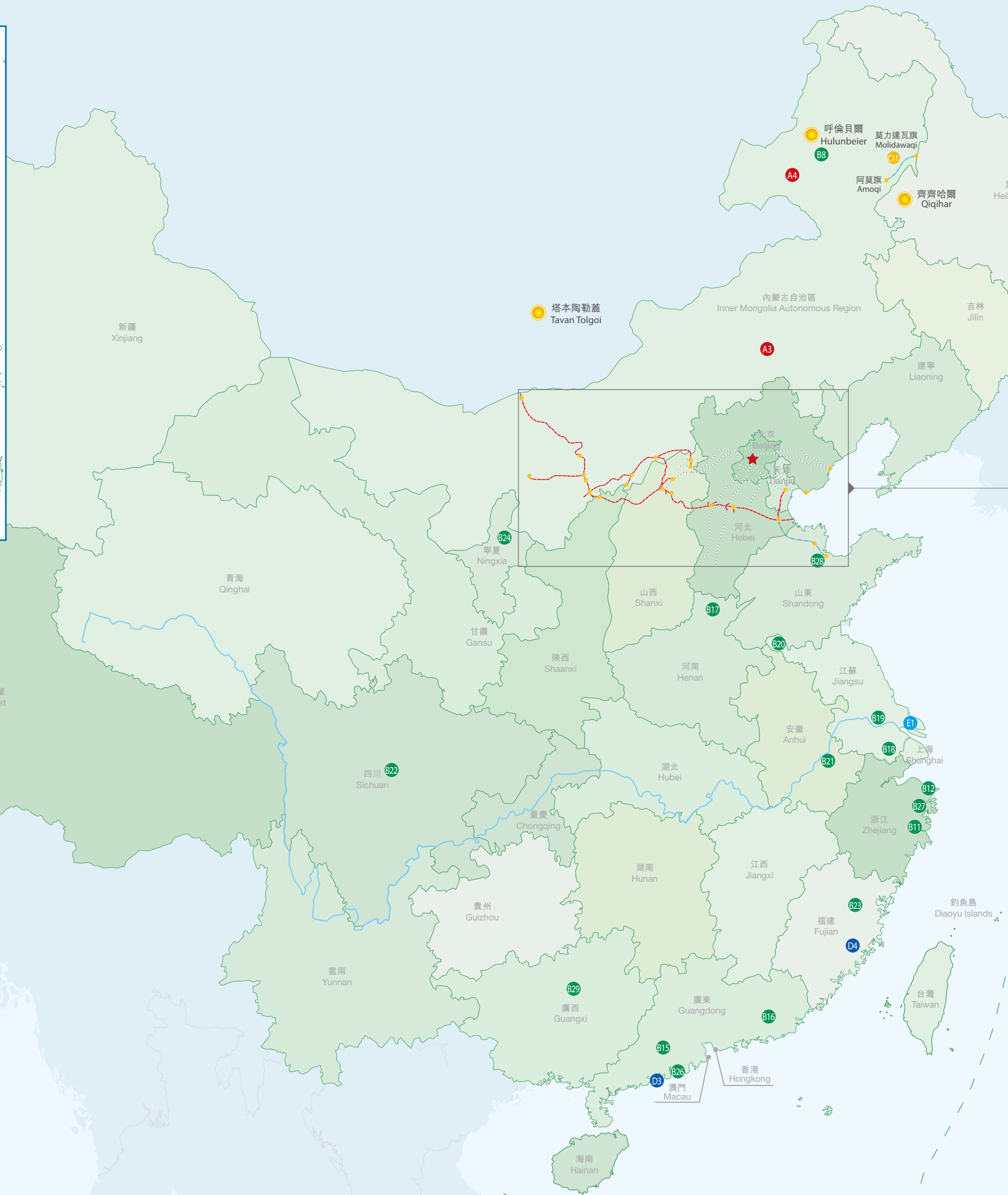
Power plants	Regional grid	Location	Gross power generation 100 million kWh	Total power output dispatch 100 million kWh	Average utilisation hours	Standard coal consumption rate for power output dispatch g/kWh	Power tariff RMB/mWh	Total installed capacity as at 31 December 2016 MW	Increase/(decrease) in installed capacity for the first half of 2017 MW	Total installed capacity as at 30 June 2017 MW	Equity installed capacity as at 30 June 2017 MW
Zhunge'er Power	North China Power Grid	Inner Mongolia	16.0	14.1	1,668	384	202	960	-	960	554
Guohua Zhunge'er	North China Power Grid	Inner Mongolia	23.5	21.1	1,781	308	207	1,320	-	1,320	639
Guohua Hulunbeier Power	Northeast Power Grid	Inner Mongolia	21.9	19.7	1,825	326	237	1,200	-	1,200	960
Shendong Power	Northwest/North China/Shaanxi Provincial Local Power Grid	Inner Mongolia	141.1	130.4	1,724	339	241	8,187	-	8,187	7,534
Cangdong Power	North China Power Grid	Hebei	68.8	65.7	2,731	299	296	2,520	-	2,520	1,285
Sanhe Power	North China Power Grid	Hebei	30.2	28.1	2,327	288	318	1,300	-	1,300	501
Dingzhou Power	North China Power Grid	Hebei	63.0	58.4	2,499	311	298	2,520	-	2,520	1,021
Taishan Power	South China Power Grid	Guangdong	94.9	89.1	1,886	312	358	5,000	30	5,030	4,024
Huizhou Thermal	South China Power Grid	Guangdong	17.5	15.9	2,657	327	369	660	-	660	660
Zhenneng Power	East China Power Grid	Zhejiang	97.9	92.9	2,192	298	347	4,400	90	4,490	2,694
Zhoushan Power	East China Power Grid	Zhejiang	23.0	21.4	2,528	338	360	910	-	910	464
Sherwan Energy	East China Power Grid	Anhui	111.1	106.2	2,415	297	293	4,600	-	4,600	2,346
Taicaing Power	East China Power Grid	Jiangsu	38.6	37.1	3,068	295	305	1,260	-	1,260	630
Chenjiayang Power	East China Power Grid	Jiangsu	35.4	33.8	2,680	285	316	1,320	-	1,320	726
Xuzhou Power	East China Power Grid	Jiangsu	52.4	49.8	2,618	288	319	2,000	-	2,000	2,000
Suizhong Power	Northeast Power Grid	Liaoning	81.4	76.5	2,166	311	304	3,760	-	3,760	1,880
Fujian Energy	East China Power Grid	Fujian	54.3	51.8	2,012	303	324	2,700	-	2,700	1,324
Jinjie Energy	North China Power Grid	Shaanxi	74.8	68.7	3,116	325	248	2,400	-	2,400	1,680
Shennu Power	Northwest Power Grid	Shaanxi	4.0	3.5	1,817	379	303	220	-	220	112
Shenhua Sichuan Energy (coal-fired power)	Sichuan Power Grid	Sichuan	13.0	11.7	1,032	331	354	1,260	-	1,260	604
Mengjin Power	Central China Power Grid	Henan	28.2	26.7	2,349	307	304	1,200	-	1,200	612
Shouguang Power	North China Power Grid	Shandong	44.1	41.9	2,208	282	296	2,000	-	2,000	1,200
Panshan Power	North China Power Grid	Tianjin	25.1	23.5	2,370	310	357	1,060	-	1,060	482
Ningdong Power	Northwest Power Grid	Ningxia	14.6	12.9	2,210	379	224	660	-	660	660
Luzhou Power	Guangxi Power Grid	Guangxi	9.0	8.5	1,281	322	350	700	-	700	364
EMM Indonesia	PLN	Indonesia	7.7	6.7	2,556	367	487	300	-	300	210
Total for coal-fired power plants/weighted average			1,191.5	1,116.1	2,185	311	301	54,417	120	54,537	35,166
Other power plants											
Zhuhai Wind Energy	South China Power Grid	Guangdong	0.1	0.1	919	-	598	16	-	16	12
Shenhua Sichuan Energy (hydro-power)	Sichuan Provincial Local Power Grid	Sichuan	3.0	2.9	2,363	-	249	125	-	125	48
Beijing Gas-fired Power	North China Power Grid	Beijing	16.9	16.4	1,777	203	564	950	-	950	950
Yuyao Power	East China Power Grid	Zhejiang	9.0	8.8	1,150	230	584	780	-	780	624

Table 13 Coal Resources Reserve

Mines	Coal resources (under PRC standard)			Recoverable		
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- 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 (前期工作階段)
Watermark Coal Project in Australia (preliminary work in progress)
- A7. 新街台格廟勘查區 (前期工作階段)
Xinjie Taigemiao Exploration Area (preliminary work in progress)

電廠 POWER

B1. 滄東電力 Cangdong Power	B8. 國華呼電 Guohua Hulunbeier 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. 盤山電力 Panshan Power	B11. 浙能電力 Zheneng Power	B18. 大倉電力 Talcang Power	B25. 南蘇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	B28. 壽光電力 Shouguang Power
			B29. 柳州電力 Luzhou Power

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 (緩建)
Amo Railway (construction suspended)

港口 PORT

- D1. 黃驊港
Huanghua Port
- D2. 神華天津煤碼頭
Shenhua Tianjin Coal Dock
- D3. 珠澳煤碼頭
Zuhai Coal Dock
- D4. 羅源灣項目 (籌備中)
Luoyuan Wan Project (under preparation)

煤化工 COAL CHEMICAL

- F1. 包頭煤化工
Baotou Coal Chemical

航運 SHIPPING

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

註：於2017年6月30日之分佈圖，僅做示意。
Note: This map as at 30 June 2017 is for illustrative purpose only.



Section V Discussion and Analysis on Operation Results

I. DISCUSSION AND ANALYSIS ON OPERATION RESULTS

In the first half of 2017, the demand and supply in the coal market was generally balanced and the price fluctuated at a high level. China Shenhua promptly reacted to the market and seized favorable opportunities arising from the coal and power industry. Accordingly, we organized the sources of coal delicately, strengthened the integrated operation, intensified marketing and optimized cost control. As the active responses that we have made in stabilizing the market led to a synergistic growth in business volume of coal, power and transportation, the operating results for the first half of the year were significantly increased.

The Group recorded a profit for the period of RMB30,839 million in the first half of 2017 (the first half of 2016: RMB14,810 million), representing a year-on-year increase of 108.2%; a profit for the period attributable to equity holders of the Company of RMB26,298 million (the first half of 2016: RMB10,827 million); and basic earnings per share of RMB1.322/share (the first half of 2016: RMB0.544/share), representing a year-on-year increase of 142.9%.

Major financial indicators of the Group for the first half of 2017 are as follows:

	Unit	In the first half of 2017	In the first half of 2016	Change
Return on total assets as at the end of the period	%	5.0	2.6	Increased by 2.4 percentage points
Return on net assets as at the end of the period	%	9.3	3.6	Increased by 5.7 percentage points
EBITDA	RMB million	51,863	34,399	Increased by 50.8%

	Unit	As at 30 June 2017	As at 31 December 2016	Change
Equity of shareholders per share	RMB/share	14.29	15.94	Decreased by 10.3%
Asset liability ratio	%	41.6	33.2	Increased by 8.4 percentage points
Total debt to total equity ratio	%	23.3	22.0	Increased by 1.3 percentage points

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

Section V Discussion and Analysis on Operation Results (Continued)

II. MAJOR OPERATION RESULTS DURING THE REPORTING PERIOD**(I) Analysis on principal business****1 Analysis on Changes in the Major Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Cash Flows***Unit: RMB million*

Item	In the first half of 2017	In the first half of 2016	Change %
Revenue	120,518	78,723	53.1
Cost of sales	(77,615)	(52,635)	47.5
Other gains and losses	558	(152)	(467.1)
Interest income	479	174	175.3
Finance costs	(2,331)	(2,946)	(20.9)
Share of results of associates	223	35	537.1
Income tax expense	(7,156)	(4,701)	52.2
Net cash generated from operating activities	47,637	38,207	24.7
Of which: Net cash generated from operating activities of Shenhua Finance Company ^{Note}	2,984	(9,974)	(129.9)
Net cash generated from operating activities excluding the effect of Shenhua Finance Company	44,653	48,181	(7.3)
Net cash generated from/(used in) investing activities	1,949	(10,794)	(118.1)
Net cash used in financing activities	(2,377)	(3,583)	(33.7)

Note: Except for the provision of services to the Group internally, as Shenhua Finance Company provides financial services including deposits and loans for entities other than the Group, the item represents the cash flows of deposits and loans and interest, fees and commission used by this business.

Section V Discussion and Analysis on Operation Results (Continued)

(1) Factors affecting the change of revenue

The revenue of the Group in the first half of 2017 recorded a year-on-year increase of 53.1%. The main reasons for such change are:

- ① The demand and supply in the coal market basically achieved a balance in the first half of 2017, while the price was apparently higher than the level of the same period last year. The Group recorded sales of coal to 220.5 million tonnes for the first half of 2017 (the first half of 2016: 186.3 million tonnes), representing a year-on-year increase of 18.4%; the average sales price of coal was RMB425 per tonne (exclusive of tax) (the first half of 2016: RMB271 per tonne), representing a year-on-year increase of 56.8%;
- ② Given the year-on-year increase recorded in power consumption of the whole society in the first half of 2017 and the year-on-year increase in utilization hours of power plants, the power output dispatch of the Group was 114.43 billion kWh (the first half of 2016: 103.90 billion kWh), representing a year-on-year increase of 10.1%;
- ③ Benefiting from the growth in the sales of coal, turnover of self-owned railway of the Group in the first half of 2017 amounted to 136.4 billion tonne km (the first half of 2016: 119.8 billion tonne km), representing a year-on-year increase of 13.9%;
- ④ The volume and price of sales of polyolefin products witnessed a year-on-year growth.

Major operating indicators	Unit	In the first half of 2017	In the first half of 2016	Change %
(I) Coal				
1. Commercial coal production	Million tonnes	151.7	139.7	8.6
2. Coal sales	Million tonnes	220.5	186.3	18.4
Of which: Self-produced coal	Million tonnes	157.5	139.6	12.8
Purchased coal	Million tonnes	63.0	46.7	34.9
(II) Power generation				
1. Gross power generation	Billion kWh	122.05	111.01	9.9
2. Total power output dispatch	Billion kWh	114.43	103.90	10.1
(III) Coal chemical				
1. Sales of polyethylene	Thousand tonnes	171.8	129.6	32.6
2. Sales of polypropylene	Thousand tonnes	170.4	124.8	36.5
(IV) Transportation				
1. Turnover of self-owned railway	Billion tonne km	136.4	119.8	13.9
2. Seaborne coal	Million tonnes	131.8	112.3	17.4
Of which: Via Huanghua Port	Million tonnes	91.7	76.5	19.9
Via Shenhua Tianjin Coal Dock	Million tonnes	21.2	20.4	3.9
3. Shipping volume	Million tonnes	46.0	36.3	26.7
4. Shipment turnover	Billion tonne nautical miles	39.9	29.0	37.6

Section V Discussion and Analysis on Operation Results (Continued)

(2) Factors on the change of costs

Unit: RMB million

Breakdown of cost of sales	Amount for the period	Percentage to cost of sales for the period %	Amount for the same period of the previous year	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 %
Cost of coal purchased	22,848	29.4	6,925	13.2	229.9
Materials, fuel and power	9,181	11.8	8,137	15.5	12.8
Personnel expenses	6,356	8.2	5,652	10.7	12.5
Depreciation and amortization	10,765	13.9	10,593	20.1	1.6
Repairs and maintenance	5,010	6.5	4,191	8.0	19.5
Transportation charges	7,222	9.3	4,687	8.9	54.1
Taxes and surcharges	4,870	6.3	2,912	5.5	67.2
Others	11,363	14.6	9,538	18.1	19.1
Total cost of sales	77,615	100.0	52,635	100.0	47.5

The cost of sales of the Group in the first half of 2017 represented a year-on-year increase of 47.5%, of which:

- ① The cost of coal purchased represented a year-on-year increase of 229.9%, which was mainly attributable to: the rise of procurement price in coal and the increase of sales volume of coal purchased by the Company from third parties according to the demand and supply in the market.
- ② Costs of materials, fuel and power represented a year-on-year increase of 12.8%, which was mainly attributable to the increase in coal cost in the power segment as a result of the increase of coal price;
- ③ Personnel expenses represented a year-on-year increase of 12.5%, which was mainly attributable to the relatively less provision for performance-based salary for the first half of last year due to the determination of performance-based salary based on the actual operating results of the Group;
- ④ Repairs and maintenance expenses represented a year-on-year increase of 19.5%, which was mainly attributable to the increase in transportation volume resulting in a year-on-year growth in the maintenance expenses of railways and ports;

Section V Discussion and Analysis on Operation Results (Continued)

- ⑤ Transportation charges represented the costs of the Group incurred through external railway, expressway, shipping transportation, the use of external port and so forth. Such charges represented a year-on-year increase of 54.1% in the first half of 2017, which was mainly attributable to the year-on-year increase in transportation volume of the Group through national railways as result of the growth in sales volume of coal;
- ⑥ Taxes and surcharges represented a year-on-year increase of 67.2%, which was mainly attributable to the increase in resource tax and relevant surtaxes resulting from an increase in coal sales volume and coal price;
- ⑦ Other costs represented a year-on-year increase of 19.1%, which was mainly attributable to the increase in mining engineering expense, washing and selection processing cost and compensation cost from relocation of coal business, as well as dredging cost of port business.

(3) Other items of income statement

- ① Other gains and losses represented a year-on-year change of 467.1% in the first half of 2017, which was mainly attributable to the increase in gains relating to wealth management products, increase in gains from disposal of intangible assets and the decrease in the loss on the disposal of fixed assets.
- ② Interest income represented a year-on-year increase of 175.3% in the first half of 2017, which was mainly attributable to the year-on-year increase in average deposit balance placed with external financial institutions.
- ③ Finance costs represented a year-on-year decrease of 20.9% in the first half of 2017, which was mainly attributable to the decrease in foreign exchange loss.
- ④ Share of results of associates represented a year-on-year increase of 537.1% in the first half of 2017, which was mainly attributable to the increase in investment income of associates of coal.
- ⑤ Income tax expense represented a year-on-year increase of 52.2% in the first half of 2017 and the average rate of income tax in the first half of 2017 was 18.8% (the first half of 2016: 24.1%), with a decrease of 5.3 percentage points, which was mainly attributable to the increase in percentage of profits in the coal segment, of which more controlling subsidiaries are entitled to preferential tax rates, and the decrease in percentage of profits in the power and transportation segments, of which less controlling subsidiaries are entitled to preferential tax rates.

Section V Discussion and Analysis on Operation Results (Continued)

(4) Cash flow

The capital of the Group was mainly attributable to capital generated from operating business, capital received from bank borrowings, bonds issuance, absorption of equity investments, and deposits placed with Shenhua Finance Company. The Group formulated capital management policies that aimed to achieve maximized interests for the shareholders and maintained a fine capital structure as well as reduced the costs of capital under the premise of safeguarding the operation on an on-going basis. In accordance with the policy of the Company, the capital was invested in infrastructure, mergers and acquisition and other projects.

- ① Net cash generated from operating activities: a year-on-year increase of 24.7% in the first half of 2017, of which, net cash generated from operating activities of Shenhua Finance Company was RMB2,984 million (the first half of 2016: RMB9,974 million used in operating activities), representing a year-on-year change of 129.9%, which was mainly attributable to the increase in deposits placed with Shenhua Finance Company. Excluding the effects of Shenhua Finance Company, net cash generated from operating activities of the Group represented a year-on-year decrease of 7.3%, which was mainly attributable to the recovery of concentrated maturity of bills receivable in the corresponding period of last year, which introduced a relatively large amount of cash inflow, while the balance of bills receivable grew during the reporting period. Taxes including resource tax paid increased during the reporting period.
- ② Net cash generated from (used in) investing activities: RMB1,949 million of net cash generated from investing activities in the first half of 2017 (the first half of 2016: RMB10,794 million used in investing activities), representing a year-on-year change of 118.1%, which was mainly attributable to the maturity of wealth management products during the reporting period.
- ③ Net cash used in financing activities: representing a year-on-year decrease of 33.7% in the first half of 2017, which was mainly due to a decrease in interests paid, and the increase in cash received from minority shareholders' investment absorbed by the subsidiaries.

(5) Investment in research and development

Expensed research and development expenditure in the period (RMB million)	108
Capitalized research and development expenditure in the period (RMB million)	91
Total research and development expenditure (RMB million)	199
Ratio of capitalized research and development expenditure (%)	45.7
Percentage of total research and development expenditure to revenue (%)	0.2
Number of research and development personnel in the Company (number of person)	914
The ratio of research and development personnel to the total number of persons in the Company (%)	1.0

Section V Discussion and Analysis on Operation Results (Continued)

In the first half of 2017, the investment in research and development of the Group represented a year-on-year increase of 4.2% (the first half of 2016: RMB191 million), which was mainly used for researches such as mine transportation, power supply and deployment system, research and development of coal communication technology, comprehensive use of coal ash after combustion and ancillary transportation equipment of mines.

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

The major changes in the composition of profit of the Group during the reporting period: the proportion of the profit from operations of the coal segment increased while that of the power and transportation segments decreased. The profit from operations of the coal chemical segment turned from negative into positive. Based on the profit from operations of all business segments before elimination on consolidation under the International Financial Reporting Standards, the percentages of profits from operations of coal, power and transportation segments of the Group changed to 64%, 9% and 26% respectively in the first half of 2017 from 23%, 37% and 41% in the first half of 2016. The changes in the proportion of the profit from operations of each of business segments were mainly attributable to an increase in both coal sales and price of the Group, and the coal cost of power segment increased significantly.

(II) Explanation on the material changes in profit incurred from non-principal business

Applicable Not applicable

(III) Analysis on Assets and Liabilities

1. Assets and Liabilities

Unit: RMB million

Name of items	Amount at the end of the period	Percentage of total assets at the end of the period %	Amount at the end of the previous period	Percentage of total assets at the end of the previous period %	Change of the amount %	Main reasons for changes
Construction in progress	41,612	6.8	35,220	6.1	18.1	Increase in investment in power and railway engineering projects
Exploration and evaluation assets	1,314	0.2	2,344	0.4	(43.9)	Return of a portion of exploration rights of Watermark Coal Project in Australia

Section V Discussion and Analysis on Operation Results (Continued)

Name of items	Amount at the end of the period	Percentage of total assets at the end of the period %	Amount at the end of the previous period	Percentage of total assets at the end of the previous period %	Change of the amount %	Main reasons for changes
Accounts and bills receivable	23,386	3.8	20,573	3.6	13.7	Increase in bank acceptance bills
Prepaid expenses and other current assets	39,040	6.4	48,792	8.5	(20.0)	Decrease in balance of wealth management products
Restricted bank deposits	7,485	1.2	6,141	1.1	21.9	Increase in balance of deposit accounts for acceptance bills
Time deposits with original maturity over three months	975	0.2	3,428	0.6	(71.6)	Maturity of time deposits
Cash and cash equivalents	88,335	14.4	41,188	7.1	114.5	Maturity of wealth management products and increase in deposits placed with Shenhua Finance Company
Short-term borrowings	8,966	1.5	11,811	2.0	(24.1)	Repayment due to maturity of bank borrowings
Accrued expenses and other payables	108,059	17.6	41,361	7.2	161.3	As at the end of the reporting period, the final dividend for the year 2016 and special dividend of the Company that declared by the Company has not been paid; increase in balance of deposits placed with Shenhua Finance Company

Section V Discussion and Analysis on Operation Results (Continued)

Name of items	Amount at the end of the period	Percentage of total assets at the end of the period %	Amount at the end of the previous period	Percentage of total assets at the end of the previous period %	Change of the amount %	Main reasons for changes
Current portion of bonds	3,381	0.6	0	0.0	N/A	Part of bonds denominated in United States Dollars issued by the Company will be expired within one year
Current portion of long-term liabilities	309	0.1	403	0.1	(23.3)	Decrease in current portion of payable charges of mining rights
Bonds	6,718	1.1	10,331	1.8	(35.0)	Current portion of bonds denominated in United States Dollars issued by the Company has been transferred to current portion of bonds
Reserves	264,352	43.1	297,085	51.5	(11.0)	Special dividend has been declared by the Company

Other details: On 23 June 2017, upon approval at the 2016 Annual General Meeting of the Company, the Company announced to declare a final dividend of RMB0.46 per share (inclusive of tax) and a special dividend of the Company of RMB2.51 per share (inclusive of tax) for the year 2016, please refer to the H-shares announcements of the Company dated 23 June 2017 and 2 July 2017 and the A-shares announcements of the Company dated 24 June 2017 and 3 July 2017.

Section V Discussion and Analysis on Operation Results (Continued)

2. Restriction on the major assets as of the end of the reporting period

The Group has no major assets sequestered nor distrained. As of the end of the reporting period, the balance of restricted assets of the Group amounted to RMB8,443 million, which mainly consists of statutory deposit reserves balance of Shenhua Finance Company placed at the central bank amounting to RMB4,949 million. Other restricted assets were mainly deposits of bank acceptance bills and fixed assets as collaterals for bank borrowings.

Unit: RMB million

Assets type	Par value as at the end of the period	Limitation
Restricted bank deposits	7,485	Deposit reserves and various deposits
Bills receivable	250	Pledges used to issue bills payables
Intangible assets	32	Mortgages used for bank borrowings
Fixed assets	676	Mortgages used for bank borrowings
Total	8,443	

(IV) Operation results by business segment

1. Coal segment

(1) Production and operations

The majority of the coal products produced and sold by the Group were thermal coal. In the first half of 2017, the Group adjusted coal production in time according to the changes in industrial policies and demand and supply of the market, gave full play to production capacity of safe and advanced mines with high efficiency and optimized and enriched product structure, so as to achieve efficiency equilibrium in production and supply of coal. In the first half of 2017, commercial coal production volume of the Group reached 151.7 million tonnes (the first half of 2016: 139.7 million tonnes), representing a year-on-year increase of 8.6%. The total footage of advancing tunnels at underground mines was 166 thousand meters (the first half of 2016: 202 thousand meters), representing a year-on-year decrease of 17.8%. Specifically, Shendong Mines recorded footage of advancing tunnels of 158 thousand meters. We deepened the quality improvement and efficiency enhancement and strengthened quality management on coal, resulting in a further increase in the output of both high quality coal and high value-added special coal. The output of special coal of the Group in the first half of the year amounted to 20.7 million tonnes (the first half of 2016: 17.8 million tonnes), representing a year-on-year increase of 16.3%.

Section V Discussion and Analysis on Operation Results (Continued)

In the first half of 2017, the Group'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 RMB1 million (the first half of 2016: RMB22 million), which was mainly attributable to the relevant expenses of Watermark Coal Project in Australia and exploration in Xinjie Taigemiao Mines. The Company's relevant capital expenditure of mining development and exploration amounted to approximately RMB334 million (the first half of 2016: RMB378 million), which was mainly attributable to the expenditure related to coal mining of Shendong Mines, Zhunge'er Mines and Shenbao Mines, acquisition of fixed assets and coal capacity replacement.

The Group has independently operated railway collection and distribution channels. These channels are centralized and distributed in the rim of self-owned core mines, and can transport coal in the core mines. Please see "Railway segment" in this section for details of operation of self-owned railway of the Group.

(2) Sales of coal

The coal sold by the Group is mainly produced in its self-owned mines. In order to fulfill the needs of customers and adequately make use of railway transportation, the Group also purchased the coal from third parties in the surrounding areas of the self-owned mines and railways and produced different kinds and levels of coal products and sold them to external customers. The Group implemented specialized division management. Production enterprises are responsible for production of coal, and Shenhua Trading Group is mainly responsible for sales of coal. Users are involved in different industries, such as power, metallurgy, chemical and construction materials. In the first half of 2017, the Group adjusted sales strategies and pricing policies flexibly in response to market conditions to ensure the stable and effective operation of integration system.

Production, transportation and sales are closely interconnected and sources of coal and transportation capacity are prioritized to support the sales flow which achieved the greatest efficiency. We put great efforts in coordinating sources of purchased coal, proactively promoted coal trading and further enhanced the capability in securing coal sources. Continuing efforts have been put to develop new markets, leading to a significant increase in sales in regions such as Hunan and Hubei, Guangxi, Sichuan and Chongqing. Thus, the sales volume of coal of the Group amounted to 220.5 million tonnes in the first half of the year (the first half of 2016: 186.3 million tonnes), representing a year-on-year increase of 18.4%, among which the domestic sales volume of coal amounted to 216.6 million tonnes, accounting for 13.5% of the domestic sales volume of coal of 1.605 billion tonnes¹ for the same period; the sales volume of seaborne coal amounted to 131.8 million tonnes (the first half of 2016: 112.3 million tonnes), representing a year-on-year increase of 17.4 %, which achieved a record high for the same period of previous years; the sales volume of purchased coal amounted to 63.0 million tonnes (the first half of 2016: 46.7 million tonnes), representing a year-on-year increase of 34.9%, with its proportion to the total sales volume of coal increasing to 28.6% from 25.1% in the first half of 2016.

¹ Source of data: State Administration of Coal Mine Safety

Section V Discussion and Analysis on Operation Results (Continued)

In the first half of 2017, the domestic price of thermal coal continued to fluctuate at a high level and witnessed a substantial growth in the average price as compared to the corresponding period last year. In the first half of the year, the Group further refined our pricing management system, adjusted the spot price of coal more frequently and increased sales premium by adopting auction trade via electronic platforms, which led to an average sales price of coal amounting to RMB425 per tonne (exclusive of tax) (the first half of 2016: RMB271 per tonne), representing a year-on-year increase of 56.8%. Leveraging on Shenhua Coal Trading Network (<https://www.e-shenhua.com>) developed by the Group, the Group achieved sales volume of coal of 107.5 million tonnes, representing a year-on-year increase of 16.0%.

① By sales regions

	In the first half of 2017			In the first half of 2016			Change	
	Sales volume Million tonnes	Proportion of total sales	Price RMB/tonne	Sales volume Million tonnes	Proportion of total sales	Price RMB/tonne	Sales volume %	Price %
		%			%			
I. Domestic sales	216.6	98.3	425	183.2	98.3	271	18.2	56.8
(I) Self-produced coal and purchased coal	209.5	95.1	425	180.9	97.0	273	15.8	55.7
1. Direct arrival	78.9	35.8	306	69.9	37.4	201	12.9	52.2
2. Seaborne	130.6	59.3	497	111.0	59.6	318	17.7	56.3
(II) Sales of domestic trading coal	6.6	3.0	417	2.2	1.2	128	200.0	225.8
(III) Sales of imported coal	0.5	0.2	580	0.1	0.1	366	400.0	58.5
II. Export Sales	1.2	0.5	399	1.3	0.7	401	(7.7)	(0.5)
III. Overseas coal sales	2.7	1.2	376	1.8	1.0	179	50.0	110.1
(I) EMM Indonesia	0.9	0.4	92	0.9	0.5	71	0.0	29.6
(II) Re-export trade	1.8	0.8	511	0.9	0.5	293	100.0	74.4
Total sales volume/ average price	220.5	100.0	425	186.3	100.0	271	18.4	56.8

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

In the first half of 2017, the sales volume of the Group to the top five domestic customers of coal was 24.4 million tonnes, which accounted for 11.3% of the domestic sales volume. In particular, the sales volume to the largest customer was 7.3 million tonnes, which accounted for 3.4% of the domestic sales volume. The top five domestic customers of coal were primarily coal, power and coal trading companies.

Section V Discussion and Analysis on Operation Results (Continued)

② *By internal and external customers*

	In the first half of 2017			In the first half of 2016			Change in price %
	Sales volume	Percentage	Price	Sales volume	Percentage	Price	
	Million tonnes	%	RMB/tonne	Million tonnes	%	RMB/tonne	
Sales to external customers	175.7	79.7	433	145.4	78.0	274	58.0
Sales to internal power segment	42.5	19.3	394	39.1	21.0	265	48.7
Sales to internal coal chemical segment	2.3	1.0	363	1.8	1.0	185	96.2
Total sales volume/average price	220.5	100.0	425	186.3	100.0	271	56.8

In the first half of 2017, the sales volume to external customers of the coal segment accounted for 79.7%, representing an increase of 1.7 percentage point as compared with that of corresponding period last year, which was mainly due to the increase in coal consumption of major power plants nationwide as a result of increase in power consumption of the whole society. Apart from meeting demand for coal consumption of power plants under the Group, the Group also improved our supply capability to external customers by enriching sources of self-produced and purchased coal. The Company adopted unified pricing policies in annual long-term contracted sales to the internal power segment, coal chemical segment and external customers.

(3) Safety production

In the first half of 2017, the Group persistently innovated and improved safety management, launched pilot audit for safety management, conducted specialized safety inspection with a focus on key potential issues and constantly reinforced our emergency response and rescue ability. There was no major or more serious safety accident occurred. In the first half of the year, the fatality rate per million tonne of coal mines of the Group was zero, enabling the Company to maintain its internationally leading position.

Section V Discussion and Analysis on Operation Results (Continued)

(4) Environmental protection

In the first half of 2017, the Group continued to push forward clean mining, kept enhancing environment restoration and mitigated the impact of coal production on the environment to the largest extent. We progressively promoted the establishment of the management system for environmental protection and stepped up efforts in controlling environmental risks. We raised and planned the use of fund for the purpose of ecological management and facilitated construction works on comprehensive environmental treatment in water and soil conservation, land rehabilitation, geological environmental protection and restoration projects. Environmental indicators including the comprehensive utilization rate of mining water reached our targets, and there was no major or more serious environmental safety incident occurred during the year.

As of 30 June 2017, balance of the “accrued reclamation obligations” of the Group amounted to RMB2,613 million, serving as strong financial guarantee for ecological construction.

(5) Coal resources

As at 30 June 2017, under the PRC Standard, the Group had coal resources amounting to 23.85 billion tonnes, representing a decrease of 160 million tonnes as compared with that of the end of 2016; and recoverable coal reserve amounting to 15.29 billion tonnes, representing a decrease of 140 million tonnes as compared with that of the end of 2016. The Group’s marketable coal reserve amounted to 8.69 billion tonnes under the JORC Standard, representing a decrease of 160 million tonnes as compared with that of the end of 2016.

Unit: '00 million tonnes

Mines	Coal resources (under the PRC Standard)	Recoverable coal reserve (under the PRC Standard)	Marketable coal reserve (under the JORC Standard)
Shandong Mines	163.4	94.4	50.6
Zhunge'er Mines	39.8	31.9	21.4
Shengli Mines	20.5	14.1	2.4
Baorixile Mines	14.3	12.1	12.4
Baotou Mines	0.5	0.4	0.1
Total	238.5	152.9	86.9

Section V Discussion and Analysis on Operation Results (Continued)

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

No.	Mines	Major types of coal	Calorific value of major commercial coal products kcal/kg	Sulphur content %	Ash content %
1	Shendong Mines	Long flame coal/non-caking coal	4,800–5,800	0.2–0.5	5–15
2	Zhunge'er Mines	Long flame coal	4,300–4,900	0.3–0.5	18–26
3	Shengli Mines	Lignite	3,100–3,400	0.4–0.7	18–22
4	Baorixile Mines	Lignite	3,300–3,600	0.2–0.3	13–16
5	Baotou Mines	Non-caking coal	4,200–4,800	0.3–0.7	12–18

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) Operation results

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

		In the first half of 2017	In the first half of 2016	Change %	Main reasons for changes
Revenue	RMB million	96,031	52,997	81.2	Sales price and sales volume of coal observed a year-on-year growth
Cost of sales	RMB million	69,507	46,025	51.0	
Gross profit margin	%	27.6	13.2	Increased by 14.4 percentage points	An increase in sales volume of coal; a significant increase in cost of purchased coal resulting from the increase in sales volume of coal purchased and the year-on-year increase in the procurement price of purchased coal; the increase in transportation costs, resource tax and related surtaxes following the increase in the sales amount of coal
Profit from operations	RMB million	24,378	5,155	372.9	
Profit margin from operations	%	25.4	9.7	Increased by 15.7 percentage points	

Section V Discussion and Analysis on Operation Results (Continued)

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

	In the first half of 2017				In the first half of 2016			
	Revenue RMB million	Costs RMB million	Gross profit RMB million	Gross profit margin %	Revenue RMB million	Costs RMB million	Gross profit RMB million	Gross profit margin %
Domestic	92,142	62,313	29,829	32.4	49,650	41,448	8,202	16.5
Export and overseas	1,493	1,350	143	9.6	834	684	150	18.0
Total	93,635	63,663	29,972	32.0	50,484	42,132	8,352	16.5

③ Unit production cost of self-produced coal

Unit: RMB/tonne

	In the first half of 2017	In the first half of 2016	Change %	Main reasons for changes
Materials, fuel and power	17.3	18.9	(8.5)	Decrease in consumption of materials and spare parts due to the decrease in tunneling footage for underground mines and corollary equipment through optimizing production units
Personnel expenses	16.7	17.3	(3.5)	
Repairs and maintenance	6.2	6.6	(6.1)	Increase in output of coal
Depreciation and amortization	19.0	20.6	(7.8)	Increase in output of coal
Other costs	41.0	41.0	0.0	
Unit production cost of self-produced coal	100.2	104.4	(4.0)	

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 70%; (2) auxiliary production expenses, accounting for 8%; (3) land requisition and surface subsidence compensation, environmental protection expenses, tax, etc., accounting for 22%.

Section V Discussion and Analysis on Operation Results (Continued)

④ *Cost of coal purchased from third parties*

The coal purchased from third parties by the Company 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 2017, cost of coal purchased from third parties was RMB22,848 million (the first half of 2016: RMB6,925 million), representing a year-on-year increase of 229.9%, which was mainly due to the rise of procurement price in coal year-on-year and the increase of sales volume of coal purchased by the Company from third parties according to the demand and supply in the market.

2. **Power segment****(1) Production and operations**

In the first half of 2017, affected by the growth in demand for power consumption of the whole society and the decrease of hydropower generation, thermal power generation recorded an increase. The Group took advantage of the favorable opportunity to enhance its efforts in generator management and marketing and proactively involved itself in power marketing trades. Power generation in the first half of this year amounted to 122.05 billion kWh (the first half of 2016: 111.01 billion kWh), representing a year-on-year increase of 9.9%; and total power output dispatch of 114.43 billion kWh (the first half of 2016: 103.90 billion kWh), representing a year-on-year increase of 10.1%, accounting for 3.9% of 2,950.8 billion kWh¹ of the total power consumption of society at the same period.

In view of the Group's proactive response to national power system reform and gradual establishment and optimization of marketing system, the transacted power generation and, in particular, the direct power supply to users recorded a continuous and significant increase. In the first half of 2017, the sales volume of direct power supply of the Group amounted to approximately 26 billion kWh, representing a year-on-year increase of approximately 73%, and its proportion to the total power output dispatch increased by approximately 9 percentage points.

(2) Power output dispatch and power tariffs① *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 2017	In the first half of 2016	Change %	In the first half of 2017	In the first half of 2016	Change %	In the first half of 2017	In the first half of 2016	Change %
	Coal-fired power	119.15	107.67	10.7	111.61	100.65	10.9	301	301
Wind power	0.01	0.02	(50.0)	0.01	0.02	(50.0)	598	595	0.5
Hydropower	0.30	0.28	7.1	0.29	0.27	7.4	249	252	(1.2)
Gas-fired power	2.59	3.04	(14.8)	2.52	2.96	(14.9)	571	461	23.9
Total	122.05	111.01	9.9	114.43	103.90	10.1	307	306	0.3

¹ Source of data: China Electricity Council

Section V Discussion and Analysis on Operation Results (Continued)

② Classified by location

Location/Type of power	Power generation (billion kWh)			Power output dispatch (billion kWh)			Power tariff (RMB/mWh)		
	In the first half of 2017	In the first half of 2016	Change %	In the first half of 2017	In the first half of 2016	Change %	In the first half of 2017	In the first half of 2016	Change %
Domestic in total/ weighted average	121.28	110.18	10.1	113.76	103.17	10.3	306	305	0.3
Hebei	16.20	15.72	3.1	15.22	14.73	3.3	301	291	3.4
coal-fired power	16.20	15.72	3.1	15.22	14.73	3.3	301	291	3.4
Jiangsu	12.64	13.18	(4.1)	12.07	12.57	(4.0)	314	314	0.0
coal-fired power	12.64	13.18	(4.1)	12.07	12.57	(4.0)	314	314	0.0
Zhejiang	12.99	13.26	(2.0)	12.31	12.54	(1.8)	366	370	(1.1)
coal-fired power	12.09	12.20	(0.9)	11.43	11.51	(0.7)	349	352	(0.9)
gas-fired power	0.90	1.06	(15.1)	0.88	1.03	(14.6)	584	573	1.9
Inner Mongolia	9.44	9.82	(3.9)	8.52	8.96	(4.9)	208	210	(1.0)
coal-fired power	9.44	9.82	(3.9)	8.52	8.96	(4.9)	208	210	(1.0)
Guangdong	11.26	8.89	26.7	10.51	8.26	27.2	360	377	(4.5)
coal-fired power	11.25	8.87	26.8	10.50	8.24	27.4	359	376	(4.5)
wind power	0.01	0.02	(50.0)	0.01	0.02	(50.0)	598	595	0.5
Shaanxi	12.44	11.77	5.7	11.38	10.75	5.9	258	253	2.0
coal-fired power	12.44	11.77	5.7	11.38	10.75	5.9	258	253	2.0
Anhui	11.11	9.94	11.8	10.62	9.46	12.3	293	299	(2.0)
coal-fired power	11.11	9.94	11.8	10.62	9.46	12.3	293	299	(2.0)
Liaoning	8.14	7.99	1.9	7.65	7.50	2.0	304	295	3.1
coal-fired power	8.14	7.99	1.9	7.65	7.50	2.0	304	295	3.1
Fujian	5.43	4.18	29.9	5.18	3.94	31.5	324	316	2.5
coal-fired power	5.43	4.18	29.9	5.18	3.94	31.5	324	316	2.5
Xinjiang	2.24	2.33	(3.9)	2.07	2.15	(3.7)	198	204	(2.9)
coal-fired power	2.24	2.33	(3.9)	2.07	2.15	(3.7)	198	204	(2.9)
Tianjin	2.51	2.17	15.7	2.35	2.02	16.3	357	337	5.9
coal-fired power	2.51	2.17	15.7	2.35	2.02	16.3	357	337	5.9
Henan	2.82	2.16	30.6	2.67	2.03	31.5	304	312	(2.6)
coal-fired power	2.82	2.16	30.6	2.67	2.03	31.5	304	312	(2.6)
Sichuan	1.60	1.33	20.3	1.46	1.22	19.7	333	391	(14.8)
coal-fired power	1.30	1.05	23.8	1.17	0.95	23.2	354	432	(18.1)
hydropower	0.30	0.28	7.1	0.29	0.27	7.4	249	252	(1.2)
Ningxia	1.46	1.44	1.4	1.29	1.29	0.0	224	192	16.7
coal-fired power	1.46	1.44	1.4	1.29	1.29	0.0	224	192	16.7
Chongqing	1.94	2.61	(25.7)	1.85	2.50	(26.0)	330	355	(7.0)
coal-fired power	1.94	2.61	(25.7)	1.85	2.50	(26.0)	330	355	(7.0)
Beijing	1.69	1.98	(14.6)	1.64	1.93	(15.0)	564	401	40.6
gas-fired power	1.69	1.98	(14.6)	1.64	1.93	(15.0)	564	401	40.6
Shanxi	2.06	1.41	46.1	1.93	1.32	46.2	216	261	(17.2)
coal-fired power	2.06	1.41	46.1	1.93	1.32	46.2	216	261	(17.2)
Shandong	4.41	0.00	N/A	4.19	0.00	N/A	296	N/A	N/A
coal-fired power	4.41	0.00	N/A	4.19	0.00	N/A	296	N/A	N/A
Guangxi	0.90	0.00	N/A	0.85	0.00	N/A	350	N/A	N/A
coal-fired power	0.90	0.00	N/A	0.85	0.00	N/A	350	N/A	N/A
Overseas in total/ weighted average	0.77	0.83	(7.2)	0.67	0.73	(8.2)	515	435	18.4
Indonesia	0.77	0.83	(7.2)	0.67	0.73	(8.2)	515	435	18.4
coal-fired power	0.77	0.83	(7.2)	0.67	0.73	(8.2)	515	435	18.4
Total/weighted average	122.05	111.01	9.9	114.43	103.90	10.1	307	306	0.3

Section V Discussion and Analysis on Operation Results (Continued)

(3) Installed capacity

At the end of the reporting period, the total installed capacity of power generation of the Group reached 56,408MW, accounting for 3.5% of 1,629.07 million kW¹ of the total installed capacity of thermal power equipment of the whole society with capacity of 6,000kW or above. Among which, the total installed capacity of the coal-fired power generators is 54,537MW, which was 96.7% of the total installed capacity of the Group.

Unit: MW

Power type	Gross installed capacity as at 31 December 2016	Installed capacity increased/ (decreased) during the reporting period	Gross installed capacity as at 30 June 2017
Coal-fired power	54,417	120 ^{Note}	54,537
Wind power	16	0	16
Hydropower	125	0	125
Gas-fired power	1,730	0	1,730
Total	56,288	120	56,408

Note: This item represents the new installed capacity of power generators upon capacity increment renovation, among which, the new installed capacity of Taishan Power and Zheneng Power was 30MW and 90MW, respectively.

(4) Utilization rate of power generation equipment

In the first half of 2017, average utilization hours of coal-fired generators of the Group reached 2,185 hours, representing an increase of 125 hours as compared to 2,060 hours of the same period of last year, which was 145 hours higher than the average utilization hours of 2,040 hours² for coal-fired generators nationwide. The efficiency of power generation improved constantly and the average power consumption rate of the power plant decreased 0.22 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 6,484MW, which was 11.9% of the installed capacity of the coal-fired generating units of the Group.

¹ Source of date: China Electricity Council

² Source of data: China Electricity Council

Section V Discussion and Analysis on Operation Results (Continued)

Power type	Average utilization hours (Hour)			Power consumption ratio of power plant (%)		
	In the first half of 2017	In the first half of 2016	Change %	In the first half of 2017	In the first half of 2016	Change
Coal-fired power	2,185	2,060	6.1	5.65	5.90	Decreased by 0.25 percentage point
Wind power	919	1,113	(17.4)	0.87	0.72	Increased by 0.15 percentage point
Hydropower	2,363	2,252	4.9	0.29	0.26	Increased by 0.03 percentage point
Gas-fired power	1,494	1,755	(14.9)	2.04	2.07	Decreased by 0.03 percentage point
Weighted average	2,164	2,051	5.5	5.56	5.78	Decreased by 0.22 percentage point

(5) Environmental protection

During the reporting period, the Group continued to promote development of clean coal power, implement the “ultra-low-emission” renovation of coal-fired generators, with a total of 5 coal-fired generators or a total of 3,100MW capacities being transformed to achieve “ultra-low-emission”. As of the end of the reporting period, 71 “ultra-low-emission” coal-fired generators with total capacities of 39,870MW of the Group were newly constructed and renovated, which was 73.1% of the total installed capacity of coal-fired power generator of the Group. The percentage of installed capacity of “ultra-low-emission” coal-fired generators continued to maintain its leading position in the industry.

The average standard coal consumption for power sold of coal-fired power generators of the Group for the first half of the year was 311 g/kWh, representing a decrease of 3g/kWh as compared with 314 g/kWh of the same period last year.

In accordance with the requirements of the Implementation Plan for the Permit System to Control Pollutant Emission rolled out by General Office of the State Council, all coal-fired power plants under the Group have obtained the pollutant discharge licenses granted by the Ministry of Environmental Protection of different levels.

(6) Capitalized expenses

In the first half of 2017, the completed capital expenditure of the power segment of the Group were RMB6,382 million, primarily used in Jawa-7 Coal Power Project (2 x 1,000MW) in Indonesia, Phase II of Guohua Ningdong Power Plant Expansion Project (2 x 660MW), Shenhua Guohua Jiangxi Jiujiang New Coal Reserve (Transit) and Power Generation Integration Project (2 x 1,000MW), etc.

Section V Discussion and Analysis on Operation Results (Continued)

(7) Operation results

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

		In the first half of 2017	In the first half of 2016	Change %	Main reasons for changes
Revenue	RMB million	36,432	32,803	11.1	Power output dispatch increased year-on-year
Cost of sales	RMB million	31,769	23,398	35.8	Increase in procurement costs of coal of coal-fired power plants and power generation
Gross profit margin	%	12.8	28.7	Decreased by 15.9 percentage points	
Profit from operations	RMB million	3,237	8,167	(60.4)	
Profit margin from operations	%	8.9	24.9	Decreased by 16.0 percentage points	

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

Unit: RMB million

Power type	Revenue from sale of power			Cost of sale of power				
	In the first half of 2017	In the first half of 2016	Change %	In the first half of 2017	Percentage to total costs of power output dispatch of the first half of 2017 %	In the first half of 2016	Percentage to total costs of power output dispatch of the first half of 2016 %	Change in the first half of 2017 over the first half of 2016 %
Coal-fired power	34,509	30,959	11.5	29,638	95.6	21,082	93.1	40.6
Wind power	8	10	(20.0)	4	0.0	5	0.0	(20.0)
Hydropower	72	69	4.3	31	0.1	32	0.1	(3.1)
Gas-fired power	1,436	1,495	(3.9)	1,327	4.3	1,543	6.8	(14.0)
Total	36,025	32,533	10.7	31,000	100.0	22,662	100.0	36.8

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 cost. The unit cost of power output dispatch of the Group in the first half of 2017 was RMB270.9/mWh (the first half of 2016: RMB218.1/mWh), representing a year-on-year increase of 24.2%. The increase was mainly due to the increase in purchase costs of coal of coal-fired power plants.

Section V Discussion and Analysis on Operation Results (Continued)

③ *Cost of sale of power of coal-fired power plant of the Group before elimination on consolidation*

	In the first half of 2017		In the first half of 2016		Change in costs
	Costs RMB million	Percentage %	Costs RMB million	Percentage %	
Raw material, fuel and power	21,258	71.7	13,071	62.0	62.6
Personnel expenses	1,760	5.9	1,472	7.0	19.6
Repairs and maintenance	976	3.3	1,149	5.5	(15.1)
Depreciation and amortization	4,557	15.4	4,398	20.8	3.6
Others	1,087	3.7	992	4.7	9.6
Total cost of power output dispatch of coal-fired power plant	29,638	100.0	21,082	100.0	40.6

The power segment consumed a total of 45.2 million tonnes of the China Shenhua's coal, accounting for 89.2% of the 50.7 million tonnes of the thermal coal consumption of the power segment of the Group in the first half of 2017 (the first half of 2016: 90.2%).

3. Railway segment

(1) Production and operations

In the first half of 2017, we proactively implemented macroscopic logistic strategy under the railway segment, effectively secured coal transportation and endeavored to foster the transportation for commodities other than coal. Therefore, volume of transportation business hit a record high for the same period and the production, transportation and sale of coal further showcased the synergy among them. Transportation volume achieved a steady growth in major railways such as Shuohuang Railway, transportation capacity of newly established railways such as Zhunchi Railway has been effectively released with transportation turnover of self-owned railways of 136.4 billion tonne km (the first half of 2016: 119.8 billion tonne km), representing a year-on-year increase of 13.9%.

The transportation volume recorded under the railway segment for external customers of the Group experienced a continuous growth in terms of coal and non-coal transportation services. In the first half of the year, transportation capacity of railway transportation service provided to external customers under the railway segment reached 103.7 million tonnes (the first half of 2016: 81.2 million tonnes), representing a year-on-year increase of 27.7%; the turnover of providing railway transportation services to external customers amounted to 13.2 billion tonne km (the first half of 2016: 9.6 billion tonne km), representing a year-on-year increase of 37.5%; the revenue generated from providing transportation services for external customers amounted to RMB2,679 million (the first half of 2016: RMB1,738 million), representing a year-on-year increase of 54.1%.

Section V Discussion and Analysis on Operation Results (Continued)

(2) Progress of projects

During the reporting period, the construction work of Huangda Railway continued to move forward. The main bridge of Extra-Large Bridge crossing the Yellow River, which is a key construction of the project, has completed construction, and railway in Shandong section was under laying and erecting, which was expected to complete in the second half of 2018.

Affected by the project process in the initial working stage, the construction of Amo Railway was temporarily suspended.

(3) Operation results

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

		In the first half of 2017	In the first half of 2016	Change %	Main reasons for changes
Revenue	RMB million	18,506	16,203	14.2	With the increase in the sales of coal, there was an increase in transportation volume of railway year-on-year; growth in reverse transportation and non-coal transportation businesses
Cost of sales	RMB million	9,637	8,081	19.3	
Gross profit margin	%	47.9	50.1	Decreased by 2.2 percentage points	Increase in transportation turnover of railways and repair expenses
Profit from operations	RMB million	8,409	7,657	9.8	
Profit margin from operations	%	45.4	47.3	Decreased by 1.9 percentage points	

In the first half of 2017, revenue generated from internal transportation services provided by the railway segment for the Group amounted to RMB15,827 million (the first half of 2016: RMB14,465 million), representing a year-on-year increase of 9.4%, accounting for 85.5% of the revenue of the railway segment (the first half of 2016: 89.3%).

In the first half of 2017, the unit transportation cost in the railway segment was RMB0.066/tonne km (the first half of 2016: RMB0.064/tonne km), representing a year-on-year increase of 3.1%, mainly due to the significant increase in repair expenses.

Section V Discussion and Analysis on Operation Results (Continued)

4. Port segment

(1) *Production and operations*

In the first half of 2017, the port segment implemented the strategy of macroscopic logistics, actively took measures in response to the impacts brought by the varying schedule of vessels, weather changes and policies on environmental protection, and strengthened the connection and coordination between upstream and downstream units, improving the efficiency of loading vessels to ensure steady and integrated operation.

The proportion of seaborne coal sales through self-owned ports remained at a relatively high level according to the principle of maximization of overall efficiency. The volume of seaborne coal at self-owned ports accounted for 85.7% of the total volume of seaborne coal of the Group (the first half of 2016: 88.4%). The seaborne coal sales through Huanghua Port was 91.7 million tonnes (the first half of 2016: 76.5 million tonnes), representing a year-on-year increase of 19.9%. The seaborne coal sales through Shenhua Tianjin Coal Dock was 21.2 million tonnes (the first half of 2016: 20.4 million tonnes), representing a year-on-year increase of 3.9%.

For the port segment, the volume of transportation services provided to external customers of the Group continued to increase. The revenue generated from services provided by the Group to external customers reached RMB372 million for the first half of 2017 (the first half of 2016: RMB260 million), representing a year-on-year increase of 43.1%; while the loading volume of vessels services provided to external customers at Huanghua Port was 5.2 million tonnes (the first half of 2016: 4.4 million tonnes), representing a year-on-year increase of 18.2%.

Section V Discussion and Analysis on Operation Results (Continued)

(2) Operation results

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

		In the first half of 2017	In the first half of 2016	Change %	Main reasons for changes
Revenue	RMB million	2,797	2,402	16.4	With the increase in the sales of coal and the transportation volume of non-coal cargo, there was an increase in the loading volume of vessels at the ports year-on-year Increase in the loading volume of vessels at the ports as well as repair and dredging expenses
Cost of sales	RMB million	1,354	1,141	18.7	
Gross profit margin	%	51.6	52.5	Decreased by 0.9 percentage point	
Profit from operations	RMB million	1,329	1,169	13.7	
Profit margin from operations	%	47.5	48.7	Decreased by 1.2 percentage points	

The revenue generated from the internal transportation services provided by the port segment to the Group amounted to RMB2,425 million for the first half of 2017 (the first half of 2016: RMB2,142 million), representing a year-on-year increase of 13.2% and accounting for 86.7% (the first half of 2016: 89.2%) of the revenue of the port segment. Costs of internal transportation services provided for the Group amounted to RMB1,144 million.

Section V Discussion and Analysis on Operation Results (Continued)

5. Shipping segment

(1) Production and operations

The shipping segment actively coordinated with coal sales activities to contribute to the integrated operation and expanded external development of customer base, while a substantial increase was recorded in business volume. In the first half of 2017, shipping volume amounted to 46.0 million tonnes (the first half of 2016: 36.3 million tonnes), representing a year-on-year increase of 26.7%, while shipment turnover amounted to 39.9 billion tonne nautical miles (the first half of 2016: 29.0 billion tonne nautical miles), representing a year-on-year increase of 37.6%.

(2) Operation results

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

		In the first half of 2017	In the first half of 2016	Change %	Main reasons for changes
Revenue	RMB million	1,448	880	64.5	Increase in shipping turnover and shipping costs
Cost of sales	RMB million	1,121	759	47.7	Increase in shipping volume, fuel price, volume as well as cost for the lending ships all together caused the increase of external transportation expenditure
Gross profit Margin	%	22.6	13.8	Increased by 8.8 percentage points	
Profit from operations	RMB million	270	72	275.0	
Profit margin from operations	%	18.6	8.2	Increased by 10.4 percentage points	

In the first half of 2017, the unit transportation cost of the shipping segment was RMB0.028/tonne nautical mile (the first half of 2016: RMB0.026/tonne nautical mile), representing a year-on-year increase of 7.7%, primarily due to the increase of the fuel price.

Section V Discussion and Analysis on Operation Results (Continued)

6. Coal chemical segment

(1) Production and operations

The coal chemical segment of the Group comprises the coal-to-olefins project (phase I) of Baotou Coal Chemical Company. Its main products consist of polyethylene (with production capacity of approximately 300,000 tonnes/year) and polypropylene (with production capacity of approximately 300,000 tonnes/year) and minor by-products including industrial sulfur, mixed C5, industrial propane, mixed C4, industrial methanol, etc.. The methanol-to-olefins (MTO) equipment of the coal-to-olefins project was the first large-scale MTO equipment in China.

The sales of polyethylene and polypropylene products of the Group in the first half of 2017 is as follows:

	In the first half of 2017		In the first half of 2016		Change	
	Sales volume Thousand tonnes	Price RMB/tonne	Sales volume Thousand tonnes	Price RMB/tonne	Sales volume %	Price %
Polyethylene	171.8	7,458	129.6	6,767	32.6	10.2
Polypropylene	170.4	6,356	124.8	5,035	36.5	26.2

Note: From April 2016 to May 2016, Baotou Coal Chemical Company arranged for 36 days of routine maintenance, which led to a relatively low production and sales volume for the first half of 2016.

(2) Project development

In July 2017, the Baotou coal-to-olefins upgrading demonstrative project (phase II) obtained approval from Development and Reform Commission of Inner Mongolia Autonomous Region to newly establish a 750 thousand tonnes of coal polyolefin installation, among which the annual production of polyethylene and polypropylene was 350 thousand tonnes and 400 thousand tonnes, respectively. The commencement date of the project has not been determined yet.

Section V Discussion and Analysis on Operation Results (Continued)

(3) Operation results

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

		In the first half of 2017	In the first half of 2016	Change %	Main reasons for changes
Revenue	RMB million	2,996	1,934	54.9	Increase in sales volume and price of olefins products
Cost of sales	RMB million	2,612	2,006	30.2	
Gross profit Margin	%	12.8	(3.7)	Increased by 16.5 percentage points	Increase in production in olefins products and increase in procurement price of raw materials
Profit from operations	RMB million	319	(127)	351.2	
Profit margin from operations	%	10.6	(6.6)	Increased by 17.2 percentage points	

(4) Unit production cost of main products

	In the first half of 2017		In the first half of 2016		Change	
	Production volume Thousand tonnes	Unit production cost RMB/tonne	Production volume Thousand tonnes	Unit production cost RMB/tonne	Production volume %	Unit production cost %
Polyethylene	173.6	5,840	130.2	6,211	33.3	(6.0)
Polypropylene	167.0	5,667	124.3	5,609	34.4	1.0

All the coals consumed by the coal chemical segment were the China Shenhua's coals. The coals consumed in the first half of 2017 were 2.3 million tonnes, representing an increase of 27.8 % as compared with 1.8 million tonnes for the same period last year.

Section V Discussion and Analysis on Operation Results (Continued)

(V) Regional operation analysis

Unit: RMB million

	In the first half of 2017	In the first half of 2016	Change %
Revenue from external transactions in domestic markets	118,819	77,753	52.8
Revenue from external transactions in overseas markets	1,699	970	75.2
Total	120,518	78,723	53.1

Note: Revenue from external transactions 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 the PRC. In the first half of 2017, the revenue from external transactions in domestic markets was RMB118,819 million, accounting for 98.6% of the Group's revenue. Affected by factors such as the increase in sales of coal and domestic coal price as well as the growth of transportation business, revenue from external transactions in domestic markets increased by 52.8% year-on-year. Affected by the significant increase in the volume and price of coal from re-export trade, revenue from external transactions in overseas markets increased by 75.2% year-on-year.

In the first half of 2017, the Group proactively responded to the promotion of the "Belt and Road Initiative" of the state by putting more efforts in international exploration. The operation of Guohua Sumsel Coal Power Project (Phase I) (2 x 150MW) in Indonesia was running steadily and obtained desirable income. The construction of Jawa-7 Coal Power Project (2 x 1,000MW) in Indonesia has been duly commenced. 17 out of 29 gas wells were under production process, and the other 12 gas wells completed shaft lining and drilling section in the shale gas project in the United States and have produced gas volume of approximately 110 million m³ attributable to the proportionate interest of China Shenhua during the reporting period. The Watermark Coal Project in Australia obtained confirmation of application on the renewal of exploration rights of 95 sq. km. from the local government. Other overseas projects are commencing under the principle of stability and prudence.

Section V Discussion and Analysis on Operation Results (Continued)

(VI) Analysis on investments

1. Overall analysis of external equity investments

The equity investments of the Company in the first half of 2017 amounted to RMB2,223 million (the first half of 2016: RMB891 million), representing a year-on-year increase of 149.5%. Equity investments mainly included capital increase in Jawa Company, Fujian Energy Company, Jiujiang Power, Shendong Power Company, as well as the new establishment of Shenhua Guohua Jiangsu Power Sales Co., Ltd., etc.

2. Material investment in equity interest

Applicable Not applicable

3. Material investment in non-equity interest

Applicable Not applicable

4. Financial assets at fair value

Financial assets at fair value held by the Group at the end of the period were trust management products held by Shenhua Finance Company. The initial investment cost of the trust management products held by Shenhua Finance Company amounted to RMB50 million. The future contract of thermal coal at fair value held by the Group at the beginning of the period has expired in the first half of 2017.

(VII) Acquisition and disposal of material assets and equity interest

During the reporting period, the Group had no material acquisition and disposal in relation to subsidiaries, associates and joint ventures.

Section V Discussion and Analysis on Operation Results (Continued)

(VIII) Analysis on major holding and associated companies

1. Major subsidiaries

Unit: RMB million

No.	Company	Registered capital	Total assets	Net assets	Net profit attributable to the equity holders of the parent company			Main reasons for changes
		As at 30 June 2017			In the first half of 2017	In the first half of 2016	Change %	
1	Shendong Coal Group Co., Ltd.	4,989	48,851	22,848	8,064	1,401	475.6	Increase in coal prices and sales volume
2	Shuohuang Railway Development Co., Ltd.	5,880	40,974	33,357	3,787	3,306	14.5	
3	Jinjie Energy	2,278	9,475	7,288	1,528	623	145.3	Increase in coal prices
4	Zhunge'er Energy Company	7,102	34,158	26,198	1,356	350	287.4	Increase in coal prices
5	Shenhua Trading Group	1,889	30,488	6,896	1,011	928	8.9	
6	Huanghua Harbour Administration Company	6,790	16,285	10,161	750	600	25.0	
7	Railway Transportation Company	4,803	20,956	6,402	510	419	21.7	
8	Shenhua Finance Company	5,000	79,375	8,026	455	376	21.0	
9	Baotou Energy Company	660	4,775	3,613	447	(168)	366.1	Increase in coal prices and sales volume
10	Shenbao Energy Company	1,169	7,073	3,958	431	147	193.2	Increase in coal prices and sales volume

- Notes:
- The financial information of the major subsidiaries disclosed in the above table (before assessment and unadjusted before consolidation) was prepared in accordance with the Accounting Standards for Business Enterprises. The data has not been audited or reviewed.
 - Shendong Coal Group Corporation recorded a revenue of RMB29,690 million and a profit from operations of RMB9,564 million in the first half of 2017.
 - Shuohuang Railway Company recorded a revenue of RMB9,437 million and a profit from operations of RMB5,053 million in the first half of 2017.

Section V Discussion and Analysis on Operation Results (Continued)

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 equity interest held %
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 2017, please refer to the H-shares announcement of the Company dated 13 July 2017 and the A-shares announcement of the Company dated 14 July 2017.

(IX) Structured Entities Controlled by the Company

Applicable Not applicable

Section V Discussion and Analysis on Operation Results (Continued)

III. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY¹

(I) Competition and Development Trend in the Industry

1. Macro economy

In the first half of 2017, the PRC government adhered to the general principle of making progress while ensuring stability, emphasised the mainline of pushing forward supply-side structural reform, focused on improving quality and efficiency, deepened reform and innovation, and firmly implemented policies. The macro-economy maintained a positive trend of steady growth. In the first half of 2017, the Gross Domestic Product (GDP) was recorded a year-on-year increase of 6.9%, representing an increase of 0.2 percentage point in growth rate compared with the same period of last year. The Consumer Price Index (CPI) was recorded a year-on-year increase of 1.4%, representing a decrease of 0.7 percentage point in increase rate compared with the same period of last year. The Producer Price Index for Industrial Products (PPI) was recorded a year-on-year increase of 6.6%.

In the second half of 2017, the PRC government will continue to adhere to the general principle of making progress while ensuring stability, and focus on the quality and effectiveness enhancement. With the key target of promoting the supply-side structural reform, it will properly expand the overall demand, deepen innovation to propel development, and accelerate economic transformation and upgrading, so as to constantly consolidate the foundation for making progress while maintaining stability and endeavour to realise the expected target of economic growth of 6.5% for the year. The CPI increase will maintain at around 3%, and the PPI will increase compared with the same period of last year. The steady growth with good momentum is beneficial to the stabilization and growth of demand for coals and electricity.

¹ This section is for reference only and does not constitute any investment advice. The Company has used its best endeavours to ensure the accuracy and reliability of information in this section, but does not assume any liability or provide any form of guarantee for the accuracy, completeness or validity of all or part of its content. If there is any error or omission, the Company does not assume any liability. The content in this section may contain certain forward-looking statements based on subjective assumptions and judgments of future political and economic developments; therefore there may exist uncertainties in these statements. The Company does not undertake any responsibility for updating the information or correcting any subsequent error that may appear. The opinions, estimates and other data set out herein can be amended or withdrawn without further notice. The data contained in this section are mainly derived from sources such as the National Bureau of Statistics, China Coal Market Network, China Coal Resource Network, China Electricity Council, and China Coal Transportation & Sales Society etc.

Section V Discussion and Analysis on Operation Results (Continued)

2. Market environment of the coal industry

(1) Thermal coal market in the PRC

Review of the first half of 2017

In the first half of 2017, the supply and demand in coal market in the PRC were basically balanced, with tight supply in partial periods and regions. While both consumption and supply volume increased over the same period last year, the coal price fluctuated following the changes of relationship between supply and demand as well as seasonal variations. In the first quarter, influenced by steady domestic growth with good momentum and restriction of hydropower, the demand for thermal power increased while coal price changed from continuous steadiness with a slight decrease at the beginning of the year to increase. Since the second quarter, as the coal market has entered the traditional low season, together with the impact of various factors such as the policy of releasing advanced production capacity, and the arrival of “the peak season of summer”, the supply and demand in coal market fluctuated, and the coal price turned from decrease to remaining stable with a slight increase. As of 30 June, the price index of Bohai Bay thermal coal (5,500 kcal) was RMB577/tonne, decreasing by RMB16/tonne compared with the beginning of the year (RMB593/tonne). In the first half of 2017, the average value of Bohai Bay thermal coal price index was RMB590/tonne, representing a year-on-year increase of 52.6%.

	January to June 2017	January to June 2016	Change %
Raw coal output (million tonnes)	1,713	1,631	5.0
Coal import (million tonnes)	133.3	107.9	23.5
Coal transportation by railway (million tonnes)	1,060	905	17.1

In the first half of 2017, raw coal production in the PRC was 1,710 million tonnes, representing a year-on-year increase of 5.0%, which switched the situation of consecutive year-on-year decline since 2015. Among the above increase, Inner Mongolia accounted for 460 million tonnes, representing a year-on-year increase of 13.8%; Shanxi accounted for 420 million tonnes, representing a year-on-year increase of 5.5%; Shaanxi accounted for 260 million tonnes, representing a year-on-year increase of 9.2%.

In the first half of 2017, the accumulative coal import amounted to 133 million tonnes, representing a year-on-year increase of 23.5%. A downward trend of growth rate was seen on a monthly basis.

The consumption volume of coal in the PRC was 1,830 million tonnes¹, representing a year-on-year increase of approximately 1.0%. Among the main coal-consuming downstream industries, except for building material industry, the coal consumption of power, steel, chemical industries presented positive growth on a year-on-year basis.

¹ Source of data: National Energy Administration

Section V Discussion and Analysis on Operation Results (Continued)

The coal transportation volume through railways in China was 1,060 million tonnes during the year, representing a year-on-year increase of 17.1%. Coal outbound shipment through major ports in China was 370 million tonnes, representing a year-on-year increase of 16.8%.

As of 30 June, the coal inventories of major ports in northern areas, major coal enterprises and major power plants were 176.4 million tonnes in aggregate, which basically remained at the same level as at the beginning of 2017.

Prospects for the second half of the year

In the second half of 2017, economy in the PRC will continue to improve steadily, which is beneficial to the support of stability and growth of coal demand. With further implementation of policies and measures such as continuous promotion of the supply-side structural reform of coal industry, the reduction and replacement of existing coal mines of inferior quality with coal mines of superior quality, the increase of the approved production capacity of coal mines with superior quality, as well as the operation of new mines, it is estimated that the capability of domestic coal supply will increase.

Affected by factors such as the reduction of price advantage as to the imported coal, the momentum of import of coal for the year will remain stable with a slight decrease on a monthly basis.

The supply and demand of coal throughout the country are expected to remain basically balanced with a slight overcapacity. There will exist seasonal increase of demand for thermal coal during the peak season in summer and winter. Affected by factors such as environmental protection, safety monitoring and restriction from resources and transportation conditions, some districts may experience tight supply occasionally. Coal price will also experience certain fluctuation along with seasonal variations.

(2) Thermal coal market in the Asia Pacific region

Review of the first half of the year

With continuous promotion of structural adjustment to global energy, non-fossil energy maintained rapid development, while the percentage of coal in global consumption of primary energy recorded a decline¹.

Since 2017, the world economy gradually recovered from sluggish condition, with coal demand turning from consecutive decline since 2014 to slight increase. Asia has become the center of global coal consumption. The increased production of coal in India has mitigated its layout of tight supply of coal, and the import volume of thermal coal continued to remain at a decreasing trend, of which the accumulative import amounted to 80 million tonnes for the first five months, representing a year-on-year decrease of exceeding 15%. In the first half of 2017, the coal import of Japan and Korea basically maintained at a stable level, amounting to 90 million tonnes and 70 million tonnes, respectively, representing a year-on-year decrease of 2.6% and a year-on-year increase of 5.7%, respectively.

¹ BP Statistical Review of World Energy (June 2017) shows that the percentage of coal for 2016 to global consumption of primary energy was 28.1%, representing a decrease of 1.1 percentage points as compared with 2015.

Section V Discussion and Analysis on Operation Results (Continued)

Supply in the global coal market has recovered. Indonesia, Australia and Russia remained as the major export countries of thermal coal. In the first half of 2017, Indonesia exported 190 million tonnes of coal, representing a year-on-year increase of 5.9%. Russia exported 90 million tonnes of coal, representing a year-on-year increase of 10.6%. Affected by extreme weather in March, the production of coal in Australia was limited, with export amounting to 170 million tonnes, representing a year-on-year decrease of 8.5%.

Affected by supply and demand status, the international coal price fluctuated and fell compared with the price of the beginning of this year, which was still higher than that of the same period last year. As of 30 June, the spot price of Newcastle NEWC thermal coal decreased from USD92.44/tonne at the beginning of the year to USD82.46/tonne.

Prospects for the second half of the year

For the second half of the year, the global economy will gradually recover, and it is anticipated that demand for coal will rise in 2017. However, the rise in demand will be limited due to the structural adjustment to energy, decrease in growth rate of energy consumption and other factors. China and India will remain as the major consumers of coal. Demand for thermal coal in India will remain at a relatively high level, and yet, with the relatively rapid growth in production volume of coal in the nation, the import volume will continue to shrink. Coal import volumes in Japan, South Korea, Vietnam and other countries and regions are expected to remain at relatively larger scale due to the increase in coal demand as a result of their relatively early introduction of the construction of newly-established coal-fired power generation projects. Coal import of the PRC will remain stable with slight decrease.

Due to the overall reduction of investment in coal industry in recent years, the growth rate of global supply of coal was limited. Coal production in Indonesia maintained at a relatively high standard. However, by virtue of the increase of domestic demand of thermal coal in Indonesia, the coal export is expected to be limited continuously. Australia will record a higher production and export volume as compared to that of the first half of 2017 following the resuming of its production of mines. Despite the impact of exchange rate and the decrease in domestic coal demand, the coal export of Russia is expected to increase steadily.

It is anticipated that the global coal supply and demand will basically remain balanced, while the price of thermal coal will fluctuate along with season variations.

Section V Discussion and Analysis on Operation Results (Continued)

3. Market environment of the power industry

Review of the first half of the year

In the first half of 2017, the nationwide demand and supply of power was generally at ease, while there was sufficient power supply in some regions.

The power consumption in the nation remained at a relatively rapid growth. Affected by various factors including steady improvement trend of macro economy and the low base for the same period last year, power consumption of the overall society amounted to 2,950.8 billion kWh, representing a year-on-year increase of 6.3% and an increase of 3.6 percentage points in growth rate as compared with the same period last year. Power consumption of the second industry recorded a year-on-year increase of 6.1%, while the power consumption of tertiary industry recorded a year-on-year increase of 9.3%, being the major momentum for the growth of power consumption in the overall society.

Power generation volume in the nation has maintained at a relatively positive standard. Power generation volume of power plants with above national scale amounted to 2,959.8 billion kWh, representing a year-on-year increase of 6.3%, among which the volume of thermal power generation amounted to 2,221.5 billion kWh, representing a year-on-year increase of 7.1%, respectively; hydropower generation amounted to 461.3 billion kWh, representing a year-on-year decrease of 4.2%. Affected by factors such as increase of power consumption demand and decrease of hydropower generation volume, utilisation hours of coal-fired power generators were 2,040 hours in the first half of 2017, representing a year-on-year increase of 9 hours. Average utilisation hours of hydropower recorded a relatively significant year-on-year decline.

The power supply capacity in the nation experienced a decline in growth. The installed capacity of the power generators of thermal power and non-fossil energy recorded a significant growth. As at the end of June 2017, the power generators of power plants nationwide with an installed capacity of thermal power of 6,000kW or above reached 1.06 billion kW, representing a growth of 1.0% as compared with the end of last year, representing a year-on-year decrease of 2 percentage points in growth rate. The installed capacity of thermal power generators in the nation, which commenced operation in the first half of 2017, amounted to 14.21 million kW, accounting for 28.1% of the nationwide newly installed generators (50.56 million kW), and declined by 48.3% compared with the same period last year. The volume of wind power and hydropower newly installed capacity amounted to 6.01 million kW and 5.64 million kW, respectively, and the capacity of the newly installed power generators for non-fossil energy accounted for a significant increase in the total installed capacity of the newly installed generators.

From the perspective of regions, there was a balanced demand and supply of power in northern region and an easing demand and supply of power in the eastern, the central and the southern regions in general, while there was sufficient power supply in some provinces and power supply in the northeastern and the northwestern regions was relatively excessive.

Prospects for the second half of the year

In consideration of factors including the macro economy, development of the service industry and weather, it is expected that the demand of power will remain at a growing momentum. However, as the basis of power consumption in the second half of 2016 was relatively high, the year-on-year growth rate of power consumption of the overall society in the second half of 2017 will be lower than that of the first half of 2017, showing a trend from high to stable. The growth for the whole year remained the same level as compared with 2016.

Section V Discussion and Analysis on Operation Results (Continued)

The power supply nationwide will be sufficient in general, with relative surpluses in some regions. The growth in installed capacity of thermal power generators continued to slow down, while the installed capacity of power generation by non-fossil energy maintained relatively rapid development.

Power supply and demand nationwide will generally remain at ease. The power consumption structure and regional demand and supply distribution will remain basically the same as the first half of the year. It is expected that utilisation hours of power generation equipment nationwide for the year will be better than expected at the beginning of the year, among which utilisation hours of thermal equipment remained flat or increased slightly as compared with that of the previous year.

(II) Status of Accomplishment of 2017 Business Targets

		Targets of 2017 (before adjustment)	Targets of 2017 (after adjustment)	Accomplishment in the first half of 2017	Percentage of accomplishment in the first half of 2017 %
Commercial coal production	100 million tonnes	2.98	2.78	1.517	54.6
Coal sales	100 million tonnes	4.07	3.96	2.205	55.7
Total power output dispatch	billion kWh	214.7	229.0	114.43	50.0
Revenue	RMB100 million	2,036	2,215	1,205.18	54.4
Cost of sales	RMB100 million	1,428	1,499	776.15	51.8
Selling, general and administrative expenses and net finance costs	RMB100 million	147	147	60.71	41.3
Amount of change in unit production cost of the self-produced coal	/	Year-on-year decrease of 1%-2%	Flat year- on-year	Year-on-year decrease of 4.0%	/

Upon the approval from the fifth meeting of the fourth session the Board of the Company, the Company has made adjustments to the 2017 business targets. The adjustment was carried out primarily based on: (1) certain impacts on the production and sales of coal and railway transportation of the Group as a result of the suspension and reduction of production in Ha'erwusu and Baorixile open-pit mines; (2) an estimation of a relatively higher growth of market coal price for the whole year as compared with the previous year; (3) an estimation of an increase in power output dispatch of the Group for the whole year as compared with the previous year, as affected by factors such as the higher growth rate of power consumption of the overall society since this year as compared with the expectation of the beginning of the year, and hot weather covering most of the areas for a long period as well as a decrease in the water inflow for hydropower generation in summer.

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.

Section V Discussion and Analysis on Operation Results (Continued)

(III) Completion of Capital Expenditures Plans for 2017

Unit: RMB'00 million

	Plans for 2017		Accomplishment in the first half of 2017	Percentage of Accomplishment %
	Total	Among which: recognized investment items		
1. Coal segment		28.8	13.12	45.6
2. Power segment		178.0	63.82	35.9
3. Transportation segments		83.1	20.41	24.6
4. Coal chemical segment		3.5	0.28	8.0
5. Others		0	0.14	N/A
Total	350	293.4	97.77	33.3

In the first half of 2017, total amount of capital expenditure of the Group was RMB9.777 billion, primarily used for power generation, newly constructed railway projects and extension of railway capacity. Major power generation projects include: Guohua Indonesia Jawa-7 Coal Power Project (2×1,000MW), Phase II of Shenhua Guohua Ningdong Power Expansion Project (2×660MW), Shenhua Guohua Jiangxi Jiujiang New Coal Reserve (Transit) and Power Generation Integration Project (2×1,000MW), newly constructed Fuping Thermal Power Construction Project (2×350MW), Shenhua Fujian Luoyuan Bay Coal Storage Integrated Power Plant Project (2×1,000MW), Phase I of Shenwan Lujiang Power Plant Power Generation Project (2×660MW) and Shenhua Bashu Jiangyou New Coal-fired Power Generator Construction Project (2×1,000MW); major railway projects include: newly constructed Huangda Railway and Hailesihao Freight Station.

The capital expenditure plans of the Group in 2017 are subject to the development of business plans (including potential acquisitions), progress of capital projects, market conditions, outlook for future operation environment and the obtaining of the requisite permissions and approval documents. Unless required by laws, the Company shall not assume any responsibilities for updating the data of its capital expenditure plans. The Company intends to finance its capital expenditures by cash generated from operating activities, short-term and long-term borrowings, and other debt and equity financing.

(IV) Caution and explanation as to the possibility of anticipated accumulated net profits being losses from the beginning of the year to the end of next reporting period or significant changes over the same period of the preceding year

Applicable Not applicable

Affected by factors such as year-on-year increase of coal selling price and the increase of sales volume, profit for the period of the Group attributable to equity holders of the Company recorded a year-on-year increase of 142.9% in the first half of 2017.

In light of: (1) the desirable profit realised by the Group in the first half of 2017; (2) the fluctuation of current coal market price at high level, it is expected that the year-on-year increase of profit for the period of the Group attributable to equity holders of the Company in the first three quarters of 2017 will exceed 100%.

The above estimates are subject to risks, uncertainties and assumptions. The actual outcome may differ materially from these statements. 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 investment risks.

Section V Discussion and Analysis on Operation Results (Continued)

(V) Potential risks

Applicable Not applicable

The Company has established a closed-loop risk management system: it will perform risk identification and determine the major risks upon assessment at the beginning of each year, then monitor such risks on a daily basis by way of monitoring of major risks on a quarterly basis, specialized inspection, internal audit and other methods, and assess its major risk management at the year end. This facilitates and improves the decision-making process, refines the internal control system, and continues to raise the risk management standard. The Board and the Audit Committee of the Company is of the view that such mechanism is able to assess the effectiveness of the operation of the risk management of the Company.

Investors should be aware that although the Company has assessed the major risks, and adopted relevant countermeasures, there is no absolute guarantee that all adverse impact could be eliminated due to the limitation of various factors.

The Company encountered major risks primarily include: volatility risk of macro economy, risk of market competition, risk of policy change in the industry, risk of increase in cost, risk of environmental protection, risk of safety production in mines, risk of integrated operation, risk of international operation and risk of natural disaster.

The PRC will continue to strengthen the supply-side structural reform, and actively promote the mitigation of overcapacity in coal industry. The environmental restriction requires control of coal consumption, while structural adjustment in the industry will reduce energy consumption. With speedy advancement of the structural reform of power industry, planned power output will be gradually liberalized and the competition in power generation market will be unceasingly intensified.

The Group will further conduct researches on the development trend of relevant industries, optimise industry structure, implement clean energy strategies and continue to improve development quality. (1) In terms of marketing and sales, the Group will improve the accuracy in estimating the changes in coal market so as to arrange sales in balance, comprehensively conduct and strengthen quality improvement and efficiency enhancement of power business. Integrating with the existing e-commerce model, the sales of coal and chemical products will be further positioned in the targeted market under sales model in the Internet in order to increase the loyalty of customers and enhance the anti-risk capability of products. (2) In terms of environmental protection, the Group will step up on the construction of risk prevention system, conduct safety and environmental protection management audit, so as to prevent risk of environmental protection at source. Carrying through the implementation of requirements as set out in the "Air Pollution Prevention and Control Measures for Beijing, Tianjin and Hebei (2016-2017)", the Group will create a brand with ultra-low emission of coal power. (3) In terms of international operation, the Group will actively respond to the "Belt and Road Initiative" of the country and continuously expand the external cooperation. The Group will strengthen analysis and research on information before making decision on investment in overseas projects, and conduct resource evaluation and project assessment to ensure economic feasibility, while nurturing and introducing multi-skilled talents to provide strong support to "go global". The Company has mid-term and long-term debts denominated in Japanese Yen and US dollars and loans with floating interest rates from foreign projects denominated in US dollars. In order to effectively prevent from foreign debt exchange and interest rate risks, the Company has set up financial derivative instrument business plan for 2017, and commenced derivative instrument trading business according to the market condition and actual demand. (4) In response to the risk of natural disaster, the Group will further enhance warning for substantial natural disasters, formulate emergency plan, equip with necessary resources, and conduct relevant emergency drills, so as to minimise the impact of natural disasters.

Section VI Significant Events

I GENERAL MEETINGS

Meetings	Date	Inquiry index of the designated website for publishing the voting results	Date of disclosure of the publication of the voting results
2016 Annual General Meeting	23 June 2017	The website of the Shanghai Stock Exchange	24 June 2017

On 23 June 2017, the Company convened the 2016 Annual General Meeting, at which all the resolutions tabled at the general meeting above were passed. The voting results were disclosed on the website of the Hong Kong Stock Exchange on 23 June 2017 and the website of the Shanghai Stock Exchange on 24 June 2017.

The Company accepted registration of shareholders' attendance, and arranged a special session for shareholders for effective consideration of proposals in the meeting. Shareholders actively participated in such meetings and were entitled to exercise their various rights, such as the right to know, the right of speech, the right to question and the right to vote. Directors, supervisors and senior management of the Company attended the meeting. Arranging special Q&A session in the meeting enabled interactions between shareholders and the management.

The shareholders' representative, supervisors' representative, witness lawyers and the representative of Computershare Hong Kong Investor Services Limited acted as scrutineers at general meetings. The PRC legal advisor of the Company issued the legal opinion. Representatives of the auditors were present at the Annual General Meeting and announced their audit opinions.

II PROPOSALS FOR PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE TO SHARE CAPITAL

(I) Proposals for profit distribution or conversion of capital reserve to share capital formulated for the half year

Whether to be distributed or converted: No

Relevant description of proposals for profit distribution or conversion of capital reserve to share capital: The Company has no plan to declare or pay interim dividends (including cash dividends).

(II) Implementation of or adjustment to the profit distribution plan carried out during the reporting period

On 23 June 2017, it was approved at the 2016 Annual General Meeting of the Company to distribute the 2016 final dividends of RMB0.46 per share (inclusive of tax) and a special dividend of the Company of RMB2.51 per share (inclusive of tax), amounting to RMB2.97 per share (inclusive of tax), or RMB59.072 billion in aggregate (inclusive of tax), to all shareholders. As at 25 August 2017, the distribution of the aforesaid dividends has been completed. The distribution of the 2016 final dividend and the special dividend of the Company complied with the requirements of the resolutions passed at the general meeting.

Section VI Significant Events (Continued)

III PERFORMANCE OF COMMITMENTS

(I) Commitments made by relevant parties such as de facto controller, Shareholders, related parties and acquirers of the Company as well as the Company during the reporting period or subsisting to the reporting period

Background of Commitment	Type of Commitment	Covenantor	Commitment	Date and Duration of Commitment	Any Time Limit for Commitment	Timely and Strict Performance of Commitment	Detailed reasons shall be specified if commitment is not fulfilled in time	Further steps shall be specified if Commitment is not fulfilled in time
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, in process	N/A	N/A

To further formulate the performance of the Non-competition Agreement, the Resolution on the Performance of Non-competition Undertaking was approved at the 45th meeting of the second session of the Board on 27 June 2014 and the Announcement in relation to the Performance of Non-competition Undertaking was disclosed to public. The Company disclosed that it will commence the acquisition of 14 assets of Shenhua Group and its subsidiaries before 30 June 2019 (submitting the asset acquisition proposal to the internal competent authorities of China Shenhua for approval procedure); Shareholders are advised to pay attention to the risks involving the change in scope of acquisition, third-party statutory right of first refusal and that the commitment may fail to be fulfilled or fail to be performed on time due to objective reasons. For details, please refer to the H-shares announcement dated 27 June 2014 and the A-shares announcement of the Company dated 28 June 2014.

Upon the disclosure of the aforesaid announcement and up to the end of the reporting period, the Company completed the acquisitions of three assets in 2015, namely Ningdong Power, Xuzhou Power and Zhoushan Power.

Section VI Significant Events (Continued)

IV APPOINTMENT AND REMOVAL OF AUDITORS

Description of appointment and removal of auditors

Applicable Not applicable

On 23 June 2017, Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu were appointed as the A-shares and H-shares auditors of the Company respectively for 2017 at the Company's 2016 Annual General Meeting.

Change in appointment of auditors during the audit period

Applicable Not applicable

Explanation of the Company on the "non-standard audit report" issued by auditors

Applicable Not applicable

Explanation of the Company on the "non-standard audit report" issued by the certified public accountant in respect of the financial report contained in the annual report for the previous year

Applicable Not applicable

V INSOLVENCY OR RESTRUCTURING RELATED MATTERS

Applicable Not applicable

VI MATERIAL LITIGATION AND ARBITRATION

During the reporting period, the Group was not involved in any material litigation or arbitration. As far as the Group was aware, the Group did not have any material litigation or claim which was pending or threatened against the Group.

As at 30 June 2017, the Group was the defendant or the party of certain non-material litigations. The management of the Group believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

VII SANCTIONS AND RECTIFICATIONS IMPOSED ON THE LISTED COMPANY, DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLER AND OFFEROR

Applicable Not applicable

Section VI Significant Events (Continued)

VIII INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

Upon self-investigation, as at the end of the reporting period, there has been no failure in fulfilling the judgment of court or relatively large amount of outstanding debt such as debit interests owed to external financial institutions due of the Company and Shenhua Group Corporation.

IX THE SHARE OPTIONS INCENTIVE PLAN, EMPLOYMENT STOCK OWNERSHIP SCHEME OR OTHER

Applicable Not applicable

X MATERIAL CONNECTED TRANSACTIONS

(I) Connected transactions during the daily operation

Applicable Not applicable

Pursuant to the requirements under the Guidelines of Shanghai Stock Exchange on Connected Transactions of Listed Companies, the Audit Committee of the Board of the Company shall perform the duties of control and daily management of connected transactions of the Company. The Company has a connected transaction team under the direct supervision of the Chief Financial Officer, who is responsible for the management of connected transactions; and has established a business process, which properly delineates the responsibilities of the Company, its subsidiaries and branches in the management of connected transactions. The team has also established routine examinations, reporting systems and accountability systems in the subsidiaries and branches of the Company.

(1) Adjustment to transaction caps during the reporting period

There was no adjustment to transaction caps during the reporting period.

(2) Implementation of agreements during the reporting period

The following are the agreed caps for major discloseable continuing connected transactions effective during the reporting period and their implementation. For details on the purposes of entering into major continuing connected transactions, please refer to the 2016 annual report.

Section VI Significant Events (Continued)

In particular, the connected transactions regarding the provision of products and labour services by the Group to Shenhua Group amounted to a total of RMB7,433 million during the reporting period, accounting for 6.2% of the Group's revenue during the reporting period.

Basis of implementation	Provision of products and services by the Group to connected persons and other inflows			Purchase of products and services from connected persons by the Group and other outflows		
	Prevailing transaction cap	Transaction amount during the reporting period	Proportion in the same type of transactions	Prevailing transaction cap	Transaction amount during the reporting period	Proportion in the same type of transactions
	RMB million	RMB million	%	RMB million	RMB million	%
1. Mutual Coal Supply Agreement between the Company and Shenhua Group	11,300	4,225	5.60	9,400	4,272	19.03
2. Mutual Supplies and Services Agreement between the Company and Shenhua Group	11,800	3,208	7.44	8,800	700	0.25
Including: (1) Products		3,113	8.06		534	0.20
(2) Services		95	2.09		166	1.36
3. Transportation Service Framework Agreement between the Company and Taiyuan Railway Bureau	1,700	0	0.00	11,600	2,173	73.65

Section VI Significant Events (Continued)

Basis of implementation	Prevailing transaction cap <i>RMB million</i>	Implementation during the reporting period <i>RMB million</i>
Financial Services Agreement between the Company and Shenhua Group		
(1) Total amount of providing financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to members of Shenhua Group	4,290	0
(2) Annual total transaction amount of bill acceptance and discount services	10,400	110
(3) Maximum daily balance (including interests accrued thereon) of deposits placed by members of Shenhua Group	52,000	15,496
(4) Maximum daily balance of loans, consumption credit, buyer's credit and finance leasing (including relevant accrued interests incurred) granted to members of Shenhua Group	26,000	15,888
(5) Maximum daily balance of entrusted loans (including relevant accrued interests incurred) advanced by Shenhua Group Corporation and its subsidiaries to the Company and/or its subsidiaries through Shenhua Finance Company	13,000	3,635
(6) Annual total fees, including agency fee, handling fee or other services expenses, charged for providing members of Shenhua Group with consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other financial services	182	24

The above continuing connected transactions were settled in cash and carried out in the ordinary scope of business of the Company, and were strictly in compliance with procedures of review and approval by independent directors and independent shareholders as well as disclosure requirements.

(3) Confirmation of the connected transactions for the year 2016

The transactions for the year 2016 (the "2016 Transactions") under the Mutual Coal Supply Agreement, Mutual Supplies and Services Agreement, Financial Services Agreement and Transportation Service Framework Agreement were disclosed in the section headed "Significant Events" in the 2016 annual report of the Company.

Section VI Significant Events (Continued)

Deloitte Touche Tohmatsu, the H-shares auditors of the Company, have reviewed the 2016 Transactions and issued a letter to the Board, indicating that they were not aware of any matter for which they would consider that the continuing connected transactions above (1) had not been approved by the Company's Board of Directors; (2) were not, in all material aspects, in accordance with the pricing policy of the Company, (3) were not entered into, in all material aspects, in accordance with the relevant agreements governing such transactions; and (4) the aggregate amount of those transactions for the year ended 31 December 2016 had exceeded the annual caps disclosed in the Company's announcements on the continuing connected transactions.

Twenty three types of related party transactions were disclosed in Note 41 of the financial statements for the year 2016 prepared by the Company under the International Financial Reporting Standards. According to the Hong Kong Listing Rules, except for the transactions under item (ii) "income from entrusted loans" and the transactions in relation to the purchase of coal from associates of the Group under item (x) "purchase of coal", all of the other related party transactions disclosed in Note 41 constituted connected transactions under the Hong Kong Listing Rules and were required to be disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules in respect of disclosure of the above connected transactions and continuing connected transactions.

(II) Connected transactions in relation to acquisition of assets or acquisition or disposal of equity

Applicable Not applicable

(III) Material connected transactions regarding joint external investments

Applicable Not applicable

Upon the approval at the 23rd meeting of the third session of the Board on 19 January 2017, the Company and Shenhua Renewables Co., Ltd. ("Shenhua Renewables") entered into the Investment Agreement on Joint Establishment of Shenhua Guohua Jiangsu Power Sales Co., Ltd., pursuant to which both parties jointly establish Shenhua Guohua Jiangsu Power Sales Co., Ltd. ("Jiangsu Power Sales") with a registered capital of RMB500 million. The Company contributed RMB325 million, representing 65% of the equity interest in Jiangsu Power Sales, while Shenhua Renewables contributed RMB175 million, representing 35% of the equity interest in Jiangsu Power Sales. Upon establishment, Jiangsu Power Sales will become a controlled subsidiary of the Company and will be consolidated in the consolidated statement of the Company.

Please refer to the announcement of the Company disclosed on the website of the Hong Kong Stock Exchange on 19 January 2017 and the announcement disclosed on the website of the Shanghai Stock Exchange on 20 January 2017.

As of the end of the reporting period, Jiangsu Power Sales has been incorporated and the capital contributed by the Company and Shenhua Renewables has arrived.

Section VI Significant Events (Continued)

(IV) Credits and debts between related parties

Unit: RMB million

Related parties	Relationship	Funds provided to related parties			Funds offered by related parties to the 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	4,824	(3,450)	1,374
Other related parties	Others	700	(2)	698	0	0	0
Total		700	(2)	698	4,824	(3,450)	1,374

Reasons for credits and debts between related parties

The amount and balance of the above credits and debts only include other receivables, short-term borrowings, long-term borrowings due within one year, long-term borrowings and other non-current assets of a non-operational nature between the Group and related parties.

The above credits and debts 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.

Impacts of credits and debts between related 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.

(V) Other material connected transactions

Applicable Not applicable

Section VI Significant Events (Continued)

XI MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Trust, contracting and leasing

Applicable Not applicable

(II) Guarantees

Unit: RMB million

Guarantor	Relationship between the guarantor and the listed company	Guaranteed	Guarantee provided by the Company to external parties (excluding guarantee granted to its subsidiaries)				Type of guarantee	Whether guarantee has been completed	Whether guarantee is overdue	Amount of guarantee overdue	Whether Counter guarantee is provided	Whether guarantee is for the benefit of related parties	Relationship
			Amount guaranteed	Date of provision of guarantee (execution date of agreement)	Beginning date of guarantee	Expiry date of guarantee							
Shenbao Energy Company	Controlling subsidiary	Hulunbeier Liangyi Railway Company Limited	105.85	2008.8.30	2008.8.30	2029.8.29	Joint and several liability guarantee	No	No	0	No	No	N/A
Shandong Coal Group Co., Ltd.	Wholly-owned subsidiary	Yulin Zhugaita Coal Cargo Transportation Co., Ltd. (榆林朱盖塔煤炭集运有限责任公司)	6.64	2017.6.13	2017.6.13	2019.6.12	Joint and several liability guarantee	No	No	0	No	No	N/A
Total amount of guarantee provided during the reporting period (excluding guarantee provided to its subsidiaries)												4.23	
Total balance of guarantee at the end of the reporting period (A) (excluding guarantee provided to its subsidiaries)												112.49	
Guarantee provided by the Company to its subsidiaries													
Total amount of guarantee provided to its subsidiaries during the reporting period												(379.81)	
Total balance of guarantee provided to its subsidiaries at the end of the reporting period (B)												10,652.82	
Aggregated amount of guarantee (including guarantee provided to its subsidiaries)													
Total amount of guarantee (A+B)												10,765.31	
Proportion of total amount of guarantee in net assets of the Company (%)												3.85	
Including: Amount of guarantee provided to its shareholders, de facto controller and their related parties (C)												0	
Amount of guarantee directly or indirectly provided to its parties with a gearing ratio in excess of 70% (D)												10,421.88	
Portion of the total amount of guarantee in excess of 50% of net assets (E)												0	
Aggregated amount of the above three amounts of guarantee (C+D+E)												10,421.88	
Description of the potential joint and several repayment liability for unmaturing guarantee												See below	
Description of guarantee												See below	

- Notes: 1. The balance of guarantee provided by the subsidiary to external parties of the balance of guarantee at the end of the reporting period equals to the amount of external guarantee of the subsidiary times the equity ratio of the subsidiary held by the Company;
2. Total amount of guarantee accounting for the net asset ratio of the Company = total amount of guarantee/net assets attributable to equity holders of the Company as at the end of the period under accounting standards for business enterprises.

Section VI Significant Events (Continued)

At the end of the reporting period, the total balance of the amount of guarantee of the Company amounted to RMB10,765.31 million, including:

- (1) At the end of the reporting period, the guarantee provided by Shenbao Energy Company, a subsidiary of which the Company owns 56.61% of the shares, to external parties was as follows: prior to the acquisition of Shenbao Energy Company by the Company in 2011 and pursuant to the Guarantee Agreement 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", of which Shenbao Energy Company owns 14.22% of the shares) for the syndicated loans. The major credit guaranteed was the debts due to the lender with a maximum balance of RMB207.47 million from 2008 to 2027, regardless of whether the debt is due when the above period expires. The above syndicated loans will fall due by tranches between 2011 and 2026. The Guarantee Agreement 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 its deteriorating business operation, as resolved by the shareholders' general meeting of Liangyi Railway Company, additional capital was injected into Liangyi Railway Company by its shareholders (including Shenbao Energy Company). Shenbao Energy Company has injected an accumulated amount of RMB11.82 million into Liangyi Railway Company.

As at the end of the reporting period, Shenbao Energy Company, in proportion to its shareholding, repaid the principal on the loans on behalf of Liangyi Railway Company Limited amounting to a total of RMB14.64 million. Shenbao Energy Company already made full provision for impairment on its 14.22% equity interest in Liangyi Railway Company Limited and the repayment amount paid on its behalf. Together with other shareholders, Shenbao Energy Company will continue to call for improvement of business operation and management of Liangyi Railway Company. As at 30 June 2017, Liangyi Railway Company had a gearing ratio of 121%.

Section VI Significant Events (Continued)

- (2) As at the end of the reporting period, the guarantee provided by Shendong Coal Group Company, a wholly-owned subsidiary of the Company, to external parties was as follows: as stipulated in the Guarantee Agreement on Maximum Guarantee entered into on 13 June 2017, Shendong Coal Group Company, as one of the guarantors, provided joint and several liability guarantee to Yulin Zhugaita Coal Cargo Transportation Co., Ltd. (of which Shendong Coal Group Company owns 33% of the shares) for the debts under a facility agreement. The major credit guaranteed was the debts due to the creditor with a maximum balance of RMB400 million from 2017 to 2019. The guarantee above has been approved at the 19th meeting of the third session of the board of directors of the Company on 28 October 2016.

As of 30 June 2017, the actual amount withdrawn by Yulin Zhugaita Coal Cargo Transportation Co., Ltd. amounted to RMB20.13 million, with a gearing ratio of 6.8%.

- (3) At the end of the reporting period, the amount of guarantee provided by the Company to its subsidiaries is detailed as follows: on 23 December 2013, the Board approved the acquisition of Baotou Coal Chemical Company by the Company and the Company would replace Shenhua Group Corporation in providing guarantee for the Loan of USD350 million granted by China Development Bank (for a term expired in August 2018) to Baotou Coal Chemical Company.

As at 30 June 2017, the balance of guarantee for the USD Loan was USD49.72 million (equivalent to approximately RMB336.79 million) and the gearing ratio of Baotou Coal Chemical Company was 36%.

- (4) As of the end of the reporting period, the amount of guarantee between subsidiaries in consolidated reports of the Company, in proportion to its shareholding, amounted to approximately RMB10,316.03 million, which was mainly due to the fact that Shenhua Hong Kong Limited, the wholly-owned subsidiary of the Company, provided guarantees for the issuance of USD1.5 billion bonds by China Shenhua Overseas Capital Co., Ltd., its wholly-owned subsidiary, and Shenhua Funeng Power Co., Ltd. of which the Company indirectly held 51% shares provided guarantees to its two controlling subsidiaries.

Section VI Significant Events (Continued)

(III) Other Material Contracts

✓ Applicable Not applicable

(I) Entrusted wealth management

Unit: RMB million

No.	Trustor	Trustee	Type of entrusted wealth management products	Amount of entrusted wealth management	Initial date of entrusted wealth management	Expiry date of entrusted wealth management	Determination of compensation	Amount of principal actually redeemed as of the end of the reporting period	Actual profit gained	Whether the legal process is taken	Whether impairment provision is a connected transaction	Whether it is involved in litigations
1	China Shenhua	Industrial and Commercial Bank of China	Principal-guaranteed with floating return	10,000	2016/12/27	2017/3/27	Principal and interests to be paid together on expiry date	10,000	74.44	Yes	- No	No
2	China Shenhua	Industrial and Commercial Bank of China	Principal-guaranteed with floating return	5,000	2016/12/29	2017/3/29	Principal and interests to be paid together on expiry date	5,000	37.22	Yes	- No	No
3	China Shenhua	China Construction Bank	Principal-guaranteed with floating return	16,000	2016/12/23	2017/3/23	Principal and interests to be paid together on expiry date	16,000	124.68	Yes	- No	No
4	China Shenhua	Agricultural Bank of China	Principal-guaranteed with guaranteed return	10,000	2017/3/31	2017/7/3	Principal and interests to be paid together on expiry date	-	-	Yes	- No	No
5	China Shenhua	China Development Bank	Principal-guaranteed with floating return	5,000	2017/3/31	Not yet confirmed	Principal and profit to be paid on redemption date	-	-	Yes	- No	No
6	China Shenhua	China Development Bank	Principal-guaranteed with floating return	5,000	2017/4/1	Not yet confirmed	Principal and profit to be paid on redemption date	-	-	Yes	- No	No
7	China Shenhua	China Development Bank	Principal-guaranteed with floating return	4,000	2017/5/9	Not yet confirmed	Principal and profit to be paid on redemption date	-	-	Yes	- No	No
8	Shenhua Finance Company	China Construction Bank	Non-principal guaranteed with floating return	2,000	2016/12/22	2017/1/23	Principal and profit to be paid one-off on expiry date	2,000	7.98	Yes	- No	No
9	Shenhua Finance Company	China Construction Bank	Non-principal guaranteed with floating return	250	2016/12/13	Not yet confirmed	Principal and profit to be paid on redemption date	-	-	Yes	- No	No
10	Shenhua Finance Company	Everbright Bank	Non-principal guaranteed with floating return	100	2016/12/14	2017/12/14	Principal and profit to be paid one-off on expiry date	-	-	Yes	- No	No
11	Shenhua Finance Company	CITIC Trust	Collective assets trust schemes	50	2016/12/26	Not yet confirmed	Principal and profit to be paid on redemption date	-	-	Yes	- No	No
12	Shenhua Finance Company	CITIC Securities	Collective assets management schemes	100	2017/1/4	2019/1/4	Principal and profit to be paid on redemption date	-	-	Yes	- No	No

Note: As described in the above table, item 4 was expired on 3 July 2017, the principal was redeemed with profits gained amounting to RMB109.45 million; items 5 and 6 were redeemed on 26 July 2017 and 27 July 2017 respectively, and achieved profits amounting to RMB65.71 million and RMB65.71 million, respectively.

Section VI Significant Events (Continued)

As of 30 June 2017, the balance of entrusted wealth management products of the Group amounted to RMB24,500 million, which was mainly consisted of principal guaranteed products with floating return, with a relatively lower risk level, and did not have any failure of receiving principal and profit when overdue.

(II) Entrusted loans

Unit: RMB million

Borrower	Amount of entrusted loans	Maturity	Interest rate	Use of proceeds	Whether collaterals or guarantor is provided	Whether it is expired	Whether it is a connected transaction	Whether the term is extended	Whether it is involved in litigations	Gain or loss from investment
Inner Mongolia Yili Chemical Industry Co., Ltd.	627	10 years	4.9%	Replacement of bank loans	Right of land use, real estate and machinery equipment	No	No	No	No	13.76
Inner Mongolia Sanxin Railway Co., Ltd. ("Sanxin Railway Company")	37	1 year	6%	Working capital	N/A	Yes	No	No	No	N/A

Note: The entrusted loan provided by the Company to Sanxin Railway Company was not repaid when it was due in February 2015, and both parties are under negotiation in respect of the subsequent relevant matters.

As of 30 June 2017, the Group did not grant entrusted loans with an amount exceeding 10% of the Group's latest audited net assets to any individual party. The Company did not utilize the proceeds raised to grant entrusted loans, and there was no entrusted loan that was involved in litigations.

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 above-mentioned part of entrusted loans has been offset in the consolidated financial statements of the Group.

XII. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES

(I) Targeted poverty alleviation plan

The Group attached importance to the poverty alleviation work conforming to the requirements under the targeted poverty alleviation plan and documents of the State. Adhering to the principle of contributing based on its ability to benefit the public, the Group has adopted different measures based on the local circumstances with emphasis on the outcome and focused on the grassroots and the "Three Rural Issues". With continuous improvement of the production capability, life quality and medical condition in provinces targeted for support, provinces under focused poverty alleviation and deprived villages as the intention and the foothold, the Group meticulously organized poverty alleviation projects and constantly invested supporting funds with standardized management and enhanced supervision while carrying out various work including education support, hygiene improvement and medical support, enhancement in construction of rural infrastructure and production facilities and assistance in the development of special industries in deprived regions.

Section VI Significant Events (Continued)

Shenhua Foundation is the major entity of the Group for execution of poverty alleviation work and the Group is the key governing unit and the major donor of Shenhua Foundation.

(II) Summary of the targeted poverty alleviation during the reporting period

In the first half of 2017, the Group contributed approximately RMB40 million¹ to the targeted poverty alleviation which was mainly used for construction of schools and libraries in deprived regions, and aids to children with leukemia and congenital heart disease in impoverished families. Each poverty alleviation work was well recognized by the local government and the public.

(III) Statistical table of the targeted poverty alleviation work during the reporting period

Index	Amount
I. General	
In which: Capital (RMB 0'000)	3,962
II. Contribution by Category	
1. Education Support (RMB 0'000)	1,245
In which: Improvement of educational resources in deprived regions (RMB 0'000)	1,245
2. Health Support (RMB 0'000)	2,717
In which: Helping poor people with treatment for serious illness (RMB 0'000)	2,717

(IV) Subsequent targeted poverty alleviation plan

In the second half of 2017, the Group will continue to promote poverty alleviation work according to the year plan, increase the contribution to poverty alleviation, actively expand aiding channels, manage and implement "Shenhua loving care" charity brand project, commence and implement projects in compliance with laws, and complete the poverty alleviation mission for the year with desirable quality and quantity.

XIII. CONVERTIBLE BONDS OF THE COMPANY

Applicable Not applicable

¹ Calculation basis of the capital expenditure for targeted poverty alleviation: capital expenditure of Shenhua Foundation for targeted poverty alleviation × the proportion of donation made by the Group to Shenhua Foundation + the capital expenditure of the Group directly used for targeted poverty alleviation. The donation from the Group accounts for 83% of the total donation received by Shenhua Foundation since its establishment.

Section VI Significant Events (Continued)

XIV. ENVIRONMENTAL ISSUES OF MAJOR WASTE DISCHARGE UNITS AS ANNOUNCED BY THE COMPETENT ENVIRONMENTAL PROTECTION AUTHORITIES

During the reporting period, the Group did not have any material environmental pollution accidents.

47 enterprises under the Group were categorized as national major pollution source under supervision (among which 42 were waste gas exhausting enterprises and 6 were wastewater discharging enterprises (inclusive of 1 waste gas exhausting enterprise concurrently)), mainly located in Inner Mongolia, Shaanxi, Fujian, Hebei, Anhui, Jiangsu and Zhejiang, etc.

The main pollutants emitted by waste gas exhausting enterprises are soot, sulphur dioxide and nitrogen oxides, which are emitted to the atmosphere through the chimneys. Waste gas exhausting enterprises are mainly distributed in public thermal power plants, coal-to-chemical captive power plants, heating boilers for mines and coking plants. Emission standards implemented include Emission Standards for Air Pollutants Produced by Thermal Plants (GB13223-2011), Emission Standards for Air Pollutants Produced by Boilers (GB13271-2014) and Emission Standards for Pollutants Produced by Coking Chemical Industry (GB16171-2012). The emission of nitrogen oxides produced by Bayannur Coking Plant under the Company was up to the standard, while the emission of soot and sulphur dioxide failed to reach the standard in a steady manner. Renovation of pollutants prevention and treatment facilities is continuously implemented, and is scheduled to be put into trial operation in the second half of 2017. During the reporting period, save as the above, the common thermal power plants, self-owned power plant and heating boilers in mining areas under the Group are well equipped with pollution prevention and treatment facilities and in stable operation which fulfilled the emission standard.

The main pollutants discharged by wastewater discharging enterprises are chemical oxygen demand (COD) and ammonia nitrogen, which are discharged to the surface water through the sewage outfall of the enterprises. Wastewater enterprises are mainly distributed in coal mining and coal-to-chemical enterprises and wastewater treatment plants. The emission standard implemented was the Comprehensive Emission Standards for Sewage (GB8978-1996). During the reporting period, the enterprises under the Group are well equipped with wastewater pollution prevention and treatment facilities and in stable operation which fulfilled the discharge standard.

Section VI Significant Events (Continued)

XV. OTHER MATERIAL MATTERS

(I) The situation, reasons and impact of the changes regarding accounting policies, accounting estimates and accounting methods as compared with the previous accounting period

Applicable Not applicable

(II) The situation, amount of corrections, reasons and impact of corrections of material accounting mistakes requiring retrospective restatements during the reporting period

Applicable Not applicable

(III) Others

Applicable Not applicable

1. Shenhua Group Corporation Limited is planning significant matter(s) involving the Company, which may constitute significant asset transaction(s) involving the Company on which opinions of relevant ministries and commissions shall be sought, and also constitute significant matter(s) without precedent. The trading in the A shares of the Company has been suspended from 5 June 2017. Upon the approvals from the twenty-seventh meeting of the third session of the Board and the third and fourth meetings of the fourth session of the Board, the trading in the A Shares of the Company continued to suspend to 4 September 2017. For details, please refer to the H-shares announcement and A-shares announcement of the Company dated 4 August 2017 and 5 August 2017, respectively. As of 25 August 2017, the Company had not entered into relevant agreement on the significant asset transaction with related transaction parties and no proposal was disclosed. The trading in A Shares was still under suspension.
2. Ha'erwusu Open-pit Mine and Baorixile Open-pit Mine have temporarily suspended or reduced coal production since August 2017 due to the temporary suspension of earthwork stripping process as a result of the delay of the land requisition of such open-pit mines, which was expected to lead to decrease in the volume of self-produced coal, transportation turnover of self-owned railways and sales volume of coal of the Group for 2017. Taking into account the above effect on the coal segment and transportation segment of the Company, it is expected that the temporary suspension and reduction of production of the two mines would directly lead to a decrease of approximately RMB3,080 million in profit for the period attributable to the owners of the Company under International Financial Reporting Standards. For details, please refer to the H-shares announcement and A-shares announcement of the Company dated 3 August 2017 and 4 August 2017, respectively. As of 25 August 2017, Ha'erwusu Open-pit Mine and Baorixile Open-pit Mine had not yet resumed to normal production.

Section VII Changes in Share Capital 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 2017	
	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 2017, the Group did not purchase, sell or redeem any of the Company's securities as defined under the Hong Kong Listing Rules.

During the reporting period and as of the disclosure date of this report, 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

Applicable Not Applicable

3. Impacts of changes in shares on earnings per share, net assets per share and other financial indicators from the reporting period to the disclosure date of interim report

Applicable Not Applicable

4. Other contents to be disclosed as deemed necessary by the Company or required by securities regulatory authorities

Applicable Not Applicable

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 share capital, share placing, issuance of new shares, non-public issuance 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.

Section VII Changes in Share Capital and Shareholders (Continued)

(II) Changes in shares with selling restrictions

Applicable Not Applicable

II. SHAREHOLDERS

(I) Total number of shareholders

Total number of shareholders of ordinary shares as at the end of the reporting period (<i>number of accounts</i>)	204,322
Of which: Holders of A shares (including Shenhua Group Corporation)	202,019
Registered holders of H shares	2,303

(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

Full name of shareholders	Increase/ decrease during the reporting period	Shareholdings of the top ten shareholders				Shares subject to pledge or lock-up Status	Nature of Shareholders
		Number of shares held at the end of the reporting period	Percentage %	Number of shares held with selling restrictions	Number		
Shenhua Group Corporation Limited	0	14,530,574,452	73.06	0	Nil	N/A	State-owned
HKSCC NOMINEES LIMITED	-214,000	3,390,252,096	17.05	0	Unknown	N/A	Overseas corporation
China Securities Finance Corporation Limited	+108,402,678	678,298,513	3.41	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	22,952,488	0.12	0	Nil	N/A	Others
Hong Kong Securities Clearing Company Limited	-12,183,472	17,816,062	0.09	0	Nil	N/A	Overseas corporation
Agricultural Bank of China Limited – Fullgoal CSI State-owned Enterprises Reform Index Classification Securities Investment Fund	+2,174,059	14,814,525	0.07	0	Nil	N/A	Others
Ansteel Capital Holding Co., Ltd.	+14,275,101	14,275,101	0.07	0	Nil	N/A	State-owned corporation
Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund	0	13,082,927	0.07	0	Nil	N/A	Others
Bank of Communications – E Fund 50 Index Securities Investment Fund	+417,900	13,023,640	0.07	0	Nil	N/A	Others

Section VII Changes in Share Capital and Shareholders (Continued)

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	3,390,252,096	Overseas-listed foreign shares	3,390,252,096
China Securities Finance Corporation Limited	678,298,513	RMB ordinary shares	678,298,513
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	22,952,488	RMB ordinary shares	22,952,488
Hong Kong Securities Clearing Company Limited	17,816,062	RMB ordinary shares	17,816,062
Agricultural Bank of China Limited – Fullgoal CSI State-owned Enterprises Reform Index Classification Securities Investment Fund	14,814,525	RMB ordinary shares	14,814,525
Ansteel Capital Holding Co., Ltd.	14,275,101	RMB ordinary shares	14,275,101
Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund	13,082,927	RMB ordinary shares	13,082,927
Bank of Communications – E Fund 50 Index Securities Investment Fund	13,023,640	RMB ordinary shares	13,023,640
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. 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.

Section VII Changes in Share Capital and Shareholders (Continued)

Shareholdings of top ten shareholders with selling restrictions and their selling restrictions

Applicable Not Applicable

(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 2017, 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 Short position Shares available for lending	316,490,470 37,433,192 95,728,000	9.31 1.10 2.81	1.59 0.19 0.48
3	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H shares	Long position Short position	192,095,678 354,500	5.65 0.01	0.97 0.00

- Notes:
- (1) In 316,490,470 H shares in long position held by JPMorgan Chase & Co., 217,054,562 H shares are held in its capacity as the beneficial owner, 3,689,008 H shares are held in its capacity as the investment manager, 18,900 H shares are held in its capacity as the trustee (except for bare trustee), 95,728,000 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. 85,075,995 H shares in long position and 3,951,318 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. 950,208 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. 14,766,122 H shares in long position and 9,783,566 H shares in short position: unlisted derivatives – physically settled;
 - d. 4,686 H shares in long position and 20,446,500 H shares in short position: unlisted derivatives – cash settled.
 - (2) In H shares in long position and short position held by BlackRock, Inc., 287,165 H shares in long position involve derivatives, and their type is unlisted derivatives – cash settled.
 - (3) Information disclosed above is based on information available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk).

Section VII Changes in Share Capital and Shareholders (Continued)

As at 30 June 2017, 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

Section VIII 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

As at 30 June 2017, Mr. Lv Zhiren, a Vice President of the Company, held 1,500 A Shares of the Company. Mr. Lv Zhiren did not trade the shares of the Company during the reporting period. 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 China Securities Regulatory Commission (“CSRC”).

All the directors and supervisors of the Company 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 2017.

As of 30 June 2017, none of the directors, supervisors and chief executive of the Company held any share of the Company nor 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 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 2017, the Company did not grant any equity securities or warrants to directors, supervisors and chief executive 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

Name	Position	Change	Reason
Zhang Yuzhuo	Chairman, Executive Director	Resignation	Resignation tendered on 27 March 2017 due to adjustments to work arrangements
Fan Hsu Lai Tai	Independent Non-executive Director	Resignation	Expiry of term of office
Gong Huazhang	Independent Non-executive Director	Resignation	Expiry of term of office
Guo Peizhang	Independent Non-executive Director	Resignation	Expiry of term of office
Chen Hongsheng	Non-executive Director	Resignation	Expiry of term of office

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Position	Change	Reason
Tam Wai Chu, Maria	Independent Non-executive Director	Election	Elected at the annual general meeting on 23 June 2017
Jiang Bo	Independent Non-executive Director	Election	Elected at the annual general meeting on 23 June 2017
Zhong Yingjie, Christina	Independent Non-executive Director	Election	Elected at the annual general meeting on 23 June 2017
Ling Wen	President	Appointment	Approved at the twenty-second meeting of the third session of the Board on 4 January 2017
Han Jianguo	President	Resignation	Resigned from the position of president on 4 January 2017 due to adjustments to work arrangements, but continued to serve as an executive Director and relevant posts in committees under the Board
Lv Zhiren	Vice President	Appointment	Approved at the twenty-fourth meeting of the third session of the Board on 17 March 2017
Jia Jinzhong	Vice President	Appointment	Approved at the twenty-fourth meeting of the third session of the Board on 17 March 2017

On 23 June 2017, the first and second meetings of the fourth session of the Board of the Company considered and approved the appointment of:

1. Jiang Bo, Han Jianguo and Zhao Jibin as the member of Nomination Committee and Jiang Bo served as the chairwoman of Nomination Committee;
2. Ling Wen, Han Jianguo and Zhao Jibin as the member of Strategy Committee and Ling Wen served as the chairman of Strategy Committee;
3. Zhong Yingjie, Christina, Tam Wai Chu, Maria, and Jiang Bo as the member of Audit Committee and Zhong Yingjie, Christina served as the chairwoman of Audit Committee;
4. Tam Wai Chu, Maria, Jiang Bo and Zhong Yingjie, Christina, as the member of Remuneration Committee and Tam Wai Chu, Maria served as the chairwoman of Remuneration Committee;
5. Zhao Jibin, Li Dong, Tam Wai Chu, Maria and Zhong Yingjie, Christina as the member of Safety, Health and Environment Committee and Zhao Jibin served as the chairman of Safety, Health and Environment Committee.

Each committee member and chairman has a term of office commencing from the date of approval by the Board and ending upon the conclusion of the term of the fourth session of the Board, and may be re-elected upon the expiry of the term.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

III. 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 as issued by the CSRC.

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. 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. On 27 March 2017, Dr. Zhang Yuzhuo resigned from the post of the Chairman, the executive Director and relevant posts in committees under the Board of the Company. According to the Articles of Association of the Company, Dr. Ling Wen, the Vice Chairman and the President, would act on behalf of the Chairman of the Company until a new Chairman is elected. Save as the above disclosed, during the six months ended 30 June 2017, 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 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 three female Directors. 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 Ms. Zhong Yingjie, Christina (chairman of the Audit Committee, with professional qualifications and experience in accounting and other fields of financial management), Dr. Tam Wai Chu, Maria and Dr. Jiang Bo. 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 and the Work Procedures of the Audit Committee of the Board of Directors of China Shenhua. On 11 August 2017, the Audit Committee reviewed the Group's interim financial statements for the six months ended 30 June 2017 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.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

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 the general manager and three deputy general managers of Shenhua Group Corporation as the president, senior vice presidents and 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.

IV. EMPLOYEES OF THE COMPANY

Total number of existing employees of the Group (<i>number of person</i>)	89,010
Number of resigned and retired employees in respect of which the Company and subsidiaries were responsible for bearing costs (<i>number of person</i>)	8,938

By Function

Function	Number of people (<i>person</i>)
Operation and maintenance	55,963
Management and administration	14,203
Finance and accounting	1,809
R&D	914
Technical support	11,020
Sales and marketing	1,091
Others	4,010
Total	89,010

By Educational Level

Educational level	Number of people (<i>person</i>)
Postgraduate or above	2,933
University graduate	28,537
College graduate	24,119
Specialised secondary school graduate	14,914
Technical school graduate, high school graduate or below	18,507
Total	89,010

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.

Section IX Investor Relations

In the first half of 2017, supply and demand of the coal market were basically balanced while coal prices fluctuated at high levels. Reform of state-owned enterprises continued to deepen, and the capital markets required more information needs from the Company. China Shenhua adhered to proactively optimise investor relations work to build a platform for smooth communication between the Company and the market on the basis of compliance with laws and regulations.

I. CARRYING OUT INVESTOR RELATIONS WORK WITH COMPLIANCE IN LAWS AND REGULATIONS

In the first half of 2017, the Company successively arranged a number of significant matters. In March, the Board of the Company proposed to declare a special dividend distribution. In June, the trading in the A Shares of China Shenhua was suspended as the controlling shareholder intended to plan a significant matter involving the Company, which might constitute a significant asset transaction involving the Company. During this period, the investor relations work of the Company adhered to the basic premise of compliance with laws and regulations, insisted on fair treatment on all investors, and regarded information disclosure as the basis of investor relations work. Stock price remained stable and no unusual fluctuation occurred before the announcement of significant matters.

II. SEIZING FAVORABLE OPPORTUNITIES TO ENHANCE INVESTOR RELATIONS

Seizing the opportunity brought by the growing attractiveness of the industry and the Company in the capital markets, the Company has taken the initiative to step up its efforts in investor relations work. The Company also engaged in honest and sufficient communication with investors and analysts in an on-going fashion through results announcement conferences, non-trading roadshows, online forums and other means. We have communicated with over 400 analysts and fund managers, reflecting that the number of receptions of investors was basically recovered to the level of the same period during the golden decade of coal industry. In particular: communications have been made with over 120 persons at roadshows, over 100 persons at investment forums and over 180 persons during company visits and by conference calls and the Company has also held an online forum.

III. RESPONDING TO MARKET CONCERNS AND PROVIDING VALID INFORMATION

Under the circumstances of stable control efforts in the domestic coal industry, fluctuation of coal prices at high levels and reduction of production capacity of thermal power, the Company focused on core concerns in capital market. Firstly, the Company focused on shareholders return, use of capital, project investment and so on to engage in in-depth and direct communication with investors, and secondly, the Company strengthened the analysis on the changes in policy and industry, focused on the explanation of understanding and judgement of the Company on the future coal and power industry to the capital markets, and boosted the confidence of capital markets to the Company's and industry's future prospect through responding to hot topics of market concerns.

Review Report and 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 89 to 121, which comprise the condensed consolidated statement of financial position as at 30 June 2017 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

25 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	NOTES	Six months ended 30 June	
		2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Revenue	4	120,518	78,723
Cost of sales	6	(77,615)	(52,635)
Gross profit		42,903	26,088
Selling expenses		(285)	(253)
General and administrative expenses		(3,934)	(3,863)
Other gains and losses		558	(152)
Other income		525	694
Other expenses		(143)	(266)
Interest income	7	479	174
Finance costs	7	(2,331)	(2,946)
Share of results of associates		223	35
Profit before income tax		37,995	19,511
Income tax expense	8	(7,156)	(4,701)
Profit for the period	9	30,839	14,810
Other comprehensive income (expense) for the period			
<i>Item that will not be reclassified to profit or loss, net of income tax:</i>			
Remeasurement of defined benefit obligations		11	(7)
<i>Items that may be reclassified subsequently to profit or loss, net of income tax:</i>			
Exchange differences		8	140
Share of other comprehensive income of associates		1	15
Fair value changes on available-for-sale investments		9	–
Other comprehensive income for the period, net of income tax		29	148
Total comprehensive income for the period		30,868	14,958
Profit for the period attributable to:			
Equity holders of the Company		26,298	10,827
Non-controlling interests		4,541	3,983
		30,839	14,810
Total comprehensive income for the period attributable to:			
Equity holders of the Company		26,339	10,966
Non-controlling interests		4,529	3,992
		30,868	14,958
Earnings per share (RMB)			
– Basic	11	1.322	0.544

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	NOTES	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Non-current assets			
Property, plant and equipment	12	327,939	337,785
Construction in progress	12	41,612	35,220
Exploration and evaluation assets		1,314	2,344
Intangible assets		2,991	3,018
Interest in associates		5,307	5,142
Available-for-sale investments		1,864	1,800
Other non-current assets	13	38,369	36,749
Lease prepayments	14	17,349	17,359
Deferred tax assets		3,858	3,849
Total non-current assets		440,603	443,266
Current assets			
Inventories	15	12,856	13,341
Accounts and bills receivable	16	23,386	20,573
Prepaid expenses and other current assets	17	39,040	48,792
Restricted bank deposits		7,485	6,141
Time deposits with original maturity over three months		975	3,428
Cash and cash equivalents	18	88,335	41,188
Total current assets		172,077	133,463
Current liabilities			
Borrowings	19	8,966	11,811
Accounts and bills payable	20	31,951	35,156
Accrued expenses and other payables	21	108,059	41,361
Current portion of medium-term notes		19,993	19,989
Current portion of bonds		3,381	–
Current portion of long-term liabilities	22	309	403
Income tax payable		2,803	3,465
Total current liabilities		175,462	112,185
Net current (liabilities) assets		(3,385)	21,278
Total assets less current liabilities		437,218	464,544

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2017

	NOTES	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Non-current liabilities			
Borrowings	19	61,906	58,462
Medium-term notes		4,989	4,985
Bonds		6,718	10,331
Long-term liabilities	22	2,452	2,451
Accrued reclamation obligations	23	2,613	2,549
Deferred tax liabilities		762	797
Total non-current liabilities		79,440	79,575
Net assets		357,778	384,969
Equity			
Share capital	24	19,890	19,890
Reserves		264,352	297,085
Equity attributable to equity holders of the Company		284,242	316,975
Non-controlling interests		73,536	67,994
Total equity		357,778	384,969

These condensed consolidated financial statements on page 89 to 121 were approved and authorised for issue by the Board of Directors on 25 August 2017, and are signed on its behalf by:

Ling Wen
Vice Chairman and President

Han Jianguo
Executive Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Equity attributable to equity holders of the Company							Total RMB million	Non- controlling interests RMB million	Total equity RMB million
	Share capital RMB million (Note 24)	Share premium RMB million (note (i))	Capital reserve RMB million (note (ii))	Exchange reserve RMB million	Statutory reserves RMB million (note (iii))	Other reserves RMB million (note (iv))	Retained earnings RMB million (note (v))			
At 1 January 2017 (audited)	19,890	85,001	3,612	105	20,827	(14,227)	201,767	316,975	67,994	384,969
Profit for the period	-	-	-	-	-	-	26,298	26,298	4,541	30,839
Other comprehensive income (expense) for the period	-	-	-	20	-	21	-	41	(12)	29
Total comprehensive income for the period	-	-	-	20	-	21	26,298	26,339	4,529	30,868
Dividend declared (note 10)	-	-	-	-	-	-	(59,072)	(59,072)	-	(59,072)
Appropriation of maintenance and production funds (note (iii))	-	-	-	-	2,714	-	(2,714)	-	-	-
Utilisation of maintenance and production funds (note (iii))	-	-	-	-	(387)	-	387	-	-	-
Contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	1,446	1,446
Distributions to non-controlling shareholders	-	-	-	-	-	-	-	-	(433)	(433)
At 30 June 2017 (unaudited)	19,890	85,001	3,612	125	23,154	(14,206)	166,666	284,242	73,536	357,778

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2017

Equity attributable to equity holders of the Company

	Share capital <i>RMB million</i> <i>(Note 24)</i>	Share premium <i>RMB million</i> <i>(note (i))</i>	Capital reserve <i>RMB million</i> <i>(note (ii))</i>	Exchange reserve <i>RMB million</i>	Statutory reserves <i>RMB million</i> <i>(note (iii))</i>	Other reserves <i>RMB million</i> <i>(note (iv))</i>	Retained earnings <i>RMB million</i> <i>(note (v))</i>	Total <i>RMB million</i>	Non-controlling interests <i>RMB million</i>	Total equity <i>RMB million</i>
At 1 January 2016 (audited)	19,890	85,001	3,612	(176)	18,003	(14,308)	186,046	298,068	65,853	363,921
Profit for the period	-	-	-	-	-	-	10,827	10,827	3,983	14,810
Other comprehensive income for the period	-	-	-	131	-	8	-	139	9	148
Total comprehensive income for the period	-	-	-	131	-	8	10,827	10,966	3,992	14,958
Dividend declared <i>(note 10)</i>	-	-	-	-	-	-	(6,365)	(6,365)	-	(6,365)
Appropriation of maintenance and production funds <i>(note (iii))</i>	-	-	-	-	1,844	-	(1,844)	-	-	-
Utilisation of maintenance and production funds <i>(note (iii))</i>	-	-	-	-	(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 2017

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 Corporation Limited ("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. The transfer to this 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 production and maintenance funds at fixed rates based on relevant bases, such as production volume, to a specific reserve account. The production and maintenance funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of production and maintenance 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, the Company's subsidiary, Shenhua Finance Co., Ltd. ("Shenhua Finance"), 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.

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 of the Company (the "Directors") have not proposed any appropriation to the discretionary surplus reserve for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

- (iv) Other reserves

Other reserves mainly represent the consideration paid for acquisition of subsidiaries under common control, and share of other comprehensive income (expense) of associates.

- (v) Retained earnings

Included in the retained earnings of the Group were its share of the surplus reserve of its domestic subsidiaries amounted to RMB18,065 million (31 December 2016: RMB18,065 million) as at 30 June 2017.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 <i>RMB million</i> (Unaudited)	2016 <i>RMB million</i> (Unaudited)
OPERATING ACTIVITIES		
Profit before income tax	37,995	19,511
Adjustments for:		
Depreciation and amortisation (<i>Note 9</i>)	12,239	12,151
Other gains and losses (<i>Note 9</i>)	(558)	152
Interest income (<i>Note 7</i>)	(479)	(174)
Share of results of associates	(223)	(35)
Interest expense	2,416	2,349
Fair value changes on financial instruments (<i>Note 7</i>)	–	(11)
Exchange (gain) loss, net (<i>Note 7</i>)	(85)	608
Other income	–	(1)
Operating cash flows before movements in working capital	51,305	34,550
Decrease (increase) in inventories	415	(1,376)
(Increase) decrease in accounts and bills receivable	(2,775)	14,449
Decrease in prepaid expenses and other receivables	306	2,369
(Decrease) increase in accounts and bills payable	(1,729)	46
Increase (decrease) in accrued expenses and other payables	7,977	(7,016)
Cash generated from operations	55,499	43,022
Income tax paid	(7,862)	(4,815)
NET CASH GENERATED FROM OPERATING ACTIVITIES	47,637	38,207
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	(10,238)	(8,941)
Increase in lease prepayments	(389)	(34)
Proceeds from disposal of property, plant and equipment, intangible assets and other non-current assets	1,888	244
Proceeds from disposal of available-for-sale investments	35,487	–
Proceeds from disposal of derivative financial instruments	4	–
Investments in associates	(130)	(38)
Dividend received from associates	8	10
Interest received	310	146
Investments in wealth management products	(26,100)	–
Investment income from debt securities	–	17
Increase in restricted bank deposits	(1,344)	(713)
Increase in time deposits with original maturity over three months	(677)	(1,872)
Maturity of time deposits with original maturity over three months	3,130	387
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	1,949	(10,794)

Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 <i>RMB million</i> (Unaudited)	2016 <i>RMB million</i> (Unaudited)
FINANCING ACTIVITIES		
Interest paid	(2,103)	(1,967)
Proceeds from borrowings	9,487	15,501
Repayments of borrowings	(8,886)	(9,577)
Repayments of short-term debentures and medium-term notes	–	(5,000)
Contributions from non-controlling shareholders	610	240
Distributions to non-controlling shareholders	(433)	(1,843)
Dividend paid to equity holders of the Company	(1,077)	(628)
Acquisition of non-controlling interests	–	(309)
Proceeds from bills discounted	25	–
NET CASH USED IN FINANCING ACTIVITIES	(2,377)	(3,583)
Net increase in cash and cash equivalents	47,209	23,830
Cash and cash equivalents, at the beginning of the period	41,188	42,323
Effect of foreign exchange rate changes	(62)	36
Cash and cash equivalents, at the end of the period	88,335	66,189

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

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 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 Dollars (“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 were 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 were listed on the Shanghai Stock Exchange.

Immediate parent and ultimate controlling party

For the six months ended 30 June 2017, the Directors consider the immediate parent and ultimate holding company of the Group to be Shenhua Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

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.

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 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

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 IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i>

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures relating to the reconciliation of liabilities arising from financing activities will be provided in the consolidated financial statements for the year ending 31 December 2017 in accordance with the Amendments to IAS 7.

4. REVENUE

	Six months ended 30 June	
	2017	2016
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Coal revenue	75,515	39,816
Power revenue	35,886	32,418
Transportation revenue	2,950	2,020
Coal chemical revenue	2,717	1,707
	117,068	75,961
Other revenue	3,450	2,762
	120,518	78,723

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

5. 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, thermal power, 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. The Group sells its polyethylene at spot market.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

5. 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 2017 and 2016 are set out below:

	Reportable segment amounts		Unallocated head office and corporate items		Elimination of inter-segment amounts		Consolidated	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Revenue	158,210	107,219	1,189	979	(38,881)	(29,475)	120,518	78,723
Profit before income tax	36,793	19,683	1,197	27	5	(199)	37,995	19,511
Interest expenses	2,599	2,661	944	957	(1,127)	(1,269)	2,416	2,349
Depreciation and amortization	12,108	12,000	131	151	-	-	12,239	12,151
Share of results of associates	210	33	13	2	-	-	223	35
Impairment loss	387	5	(1)	-	-	-	386	5

(c) Other information

Certain other information of the Group's segments for the six months ended 30 June 2017 and 2016 is set out below:

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Coal purchased	22,848	6,925	-	-	-	-	-	-	-	-	-	-	-	-	-	-	22,848	6,925
Cost of coal production	19,778	16,629	-	-	-	-	-	-	-	-	-	-	-	-	(4,453)	(820)	15,325	15,809
Cost of coal transportation	25,036	20,630	-	-	7,775	6,981	1,198	1,016	579	509	-	-	-	-	(19,411)	(22,956)	15,177	6,180
Power cost	-	-	31,497	23,178	-	-	-	-	-	-	-	-	-	-	(13,810)	(4,913)	17,687	18,265
Cost of coal chemical production	-	-	-	-	-	-	-	-	-	-	2,336	1,779	-	-	(727)	(137)	1,609	1,642
Others	1,845	1,841	272	220	1,862	1,100	156	125	542	250	276	227	16	51	-	-	4,969	3,814
Total cost of sales	69,507	46,025	31,769	23,398	9,637	8,081	1,354	1,141	1,121	759	2,612	2,006	16	51	(38,401)	(28,826)	77,615	52,635
Profit (loss) from operations (note (i))	24,378	5,155	3,237	8,167	8,409	7,657	1,329	1,169	270	72	319	(127)	836	523	(480)	(649)	38,298	21,967
Additions to non-current assets (note (ii))	1,312	1,014	6,382	5,266	1,875	1,123	166	515	-	1	28	93	14	12	-	-	9,777	8,024

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

5. SEGMENT AND OTHER INFORMATION (Continued)

(c) Other information (Continued)

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016	June 30 2017	December 31 2016
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Total assets (note (iii))	216,731	198,140	214,429	207,879	130,174	125,162	25,121	22,489	7,784	8,008	11,295	11,621	410,496	377,853	(403,350)	(374,443)	612,680	576,729
Total liabilities (note (iii))	(118,881)	(116,711)	(138,377)	(134,519)	(64,861)	(65,396)	(11,137)	(10,135)	(1,749)	(2,063)	(4,090)	(4,686)	(222,371)	(137,179)	306,564	278,929	(254,902)	(191,760)

Notes:

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

6. COST OF SALES

	Six months ended 30 June	
	2017	2016
	RMB million (Unaudited)	RMB million (Unaudited)
Coal purchased	22,848	6,925
Materials, fuel and power	9,181	8,137
Personnel expenses	6,356	5,652
Depreciation and amortisation	10,765	10,593
Repairs and maintenance	5,010	4,191
Transportation charges	7,222	4,687
Taxes and surcharges	4,870	2,912
Other operating costs	11,363	9,538
	77,615	52,635

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

7. INTEREST INCOME/FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Interest income	(479)	(174)
Interest expense	2,758	2,582
Less: amount capitalised	(404)	(296)
	2,354	2,286
Unwinding of discount	62	63
Exchange (gain) loss, net	(85)	608
Fair value changes on financial instruments	–	(11)
	2,331	2,946

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Current tax, mainly PRC enterprise income tax ("EIT")	7,071	4,624
Under provision in respect of prior periods	129	29
Deferred tax	(44)	48
	7,156	4,701

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 2016: 25%) except for Group'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 Group's overseas subsidiaries are as follows:

	Six months ended 30 June	
	2017	2016
	%	%
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 2017 and 2016, there was no significant assessable profit and provision for income tax for the overseas subsidiaries.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

9. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2017 <i>RMB million</i> (Unaudited)	2016 <i>RMB million</i> (Unaudited)
Personnel expenses, including	10,258	9,329
– contributions to defined contribution plans	1,381	1,359
Depreciation of property, plant and equipment	11,521	11,534
Amortisation of intangible assets, included in cost of sales	227	200
Amortisation of lease prepayments, included in cost of sales	230	211
Amortisation of other non-current assets	261	206
Depreciation and amortisation	12,239	12,151
Other gains and losses, represent		
– (gains) losses on disposal of property, plant and equipment, intangible assets and non-current assets	(456)	147
– gains on disposal of wealth management products	(487)	–
– gains on disposal of derivative financial instruments	(2)	–
– losses on the changes in fair value	1	–
– impairment in respect of property, plant and equipment <i>(note)</i>	308	–
– reversal of impairment loss of loans receivable	(1)	(2)
– (reversal) allowance for doubtful debts	(56)	7
– impairment of available-for-sale investments	65	–
– write down of inventories	70	–
	(558)	152
Carrying amount of inventories sold	56,690	37,366
Operating lease in respect of properties and equipment	157	128
Exchange (gain) loss, net	(85)	608

Note:

On 29 June 2017, Shenhua Watermark Coal Pty Limited (“Watermark”) reached an agreement with the state government of New South Wales, Australia (“the NSW Government”) in relation to the partial extension of the exploration license. Pursuant to the established policies of protection of agricultural activities on the black soil plains, the NSW Government withdrew the exploration license of approximately 100 square kilometres (“the withdrawn area”) within Watermark total exploration area of 195 square kilometres and provided Watermark with compensation amounting to Australian Dollars (“AUD”) 262 million (equivalent to RMB1,364 million) and accepted the application for the extension of the exploration license for the area other than the withdrawn area under the said agreement. As a result, the use of land of the withdrawn area has to be changed and the directors of Watermark assessed the recoverable amount of the withdrawn area based on the new purpose of use and recognised an impairment of AUD46 million (equivalent to RMB239 million) as at 30 June 2017. The fair value was determined based on market prices of similar land by the directors. The land belongs to coal segment, and the fair value on which the recoverable amount is based on is categorised as a Level 2 measurement.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

10. DIVIDENDS

During the current interim period, a final dividend in respect of the year ended 31 December 2016 of RMB0.46 per ordinary share totaling RMB9,149 million (six months ended 30 June 2016: RMB0.32 per ordinary share totaling RMB6,365 million in respect of the year ended 31 December 2015) and a special dividend of RMB2.51 per ordinary share totaling RMB49,923 million was approved at the annual general meeting held on 23 June 2017 and was all paid by August 2017.

The Directors have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2016: Nil).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 was based on the profit attributable to ordinary equity holders of the Company of RMB26,298 million (six months ended 30 June 2016: RMB10,827 million) and the number of shares in issue during the six months ended 30 June 2017 of 19,890 million shares (six months ended 30 June 2016: 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 2017, the additions of property, plant and equipment (excluding transferred from construction in progress) and construction in progress were amounting to RMB603 million (six months ended 30 June 2016: RMB521 million) and RMB8,383 million (six months ended 30 June 2016: RMB7,158 million), respectively. The disposals of property, plant and equipment were amounting to RMB1,039 million (six months ended 30 June 2016: RMB1,114 million).

The Group is in the process of applying for the title certificates of certain of its properties with an aggregate carrying amount of RMB9,547 million as at 30 June 2017 (31 December 2016: RMB11,170 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 2017, the Group is in the process of obtaining requisite permits for certain of its power plants and railways 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.

Impairment loss of RMB308 million was recognised by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

As at 30 June 2017, the Group has bank loans secured by the Group's property, plant and equipment with carrying amount of RMB676 million (31 December 2016: RMB707 million).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

13. OTHER NON-CURRENT ASSETS

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Prepayments in connection with construction work, equipment purchases and others	10,186	9,165
Prepayment for mining projects	8,000	8,000
Long-term receivable	2,500	2,500
Loans to Shenhua Group and fellow subsidiaries	14,124	13,502
Goodwill	889	889
Others	2,670	2,693
	38,369	36,749

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 RMB2,116 million as at 30 June 2017 (31 December 2016: RMB2,526 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

As at 30 June 2017, the Group has bank loans secured by the Group's lease prepayments with carrying amount of RMB19 million (31 December 2016: Nil).

15. INVENTORIES

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Coal	4,736	5,563
Materials and supplies	6,852	6,424
Others (<i>note</i>)	1,268	1,354
	12,856	13,341

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

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

16. ACCOUNTS AND BILLS RECEIVABLE

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Accounts receivable		
– Shenhua Group and fellow subsidiaries	3,232	3,177
– Associates	273	284
– Third parties	13,159	13,138
	16,664	16,599
Less: allowance for doubtful debts	(355)	(420)
	16,309	16,179
Bills receivable		
– Shenhua Group and fellow subsidiaries	55	18
– Associates	–	42
– Third parties	7,022	4,334
	7,077	4,394
	23,386	20,573

Bills receivable were mainly issued by PRC banks and are expiring within one year. As at 30 June 2017, the bills receivable with the carrying amounts of RMB250 million (31 December 2016: RMB85 million) were pledged to secure bills payable.

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 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Less than one year	11,045	13,035
One to two years	3,432	1,996
Two to three years	1,378	1,010
More than three years	454	138
	16,309	16,179

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

17. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Financial assets at FVTPL		
– Derivative financial instruments	–	4
– Tradable wealth management products	51	50
	51	54
Available-for-sale investments		
– Wealth management products (<i>note (i)</i>)	24,357	33,350
	24,357	33,350
Prepaid expenses and deposits	7,510	7,029
Loans and advances to Shenhua Group and fellow subsidiaries (<i>note (ii)</i>)	1,966	2,209
Amounts due from associates	960	973
Deductible VAT and other tax	3,019	3,396
Other receivables	1,177	1,781
	39,040	48,792

Notes:

- (i) As at 30 June 2017, the Group invested in principal-guaranteed floating income wealth management products amounting to RMB14,000 million with terms ranging from 117 days to 122 days and expected annual rates of return ranging from 4.00% to 4.10%, principal-guaranteed fixed income wealth management products amounting to RMB10,000 million with a term of 90 days and an expected annual rate of return 4.25%, and non-principal-guaranteed floating income wealth management products amounting to RMB357 million with terms ranging from 180 days to 365 days and expected annual rates of return ranging from 3.30% to 4.10%. The wealth management products held by the Group are valued by discounting cash flow method, the detailed fair value measurements are disclosed in Note 27.
- (ii) As at 30 June 2017, the Group had loans to Shenhua Group and fellow subsidiaries amounting to RMB1,400 million (31 December 2016: RMB2,087 million), which bear interest at a rate of 3.92% per annum (31 December 2016: 3.92% to 5.04% per annum). The remaining balances are unsecured, interest-free and payable on demand.

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 at bank and in hand, and time deposits with original maturity within three months.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

19. BORROWINGS

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

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Current borrowings:		
– Short-term bank and other borrowings	4,399	4,384
– Current portion of long-term borrowings	4,567	7,427
	8,966	11,811
Non-current borrowings:		
– Long-term borrowings, less current portion	61,906	58,462
	70,872	70,273
Secured	9,398	9,114
Unsecured	61,474	61,159
	70,872	70,273

The exposure of the long-term borrowings and the contractual maturity dates:

Within one year	4,567	7,427
More than one year, but not exceeding two years	5,959	5,657
More than two years, but not exceeding five years	15,521	13,040
More than five years	40,426	39,765
	66,473	65,889

As at 30 June 2017, the Group had entrusted loans from Shenhua Group and fellow subsidiaries amounting to RMB1,374 million (31 December 2016: RMB4,824 million).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

20. ACCOUNTS AND BILLS PAYABLE

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Accounts payable		
– Shenhua Group, an associate of Shenhua Group and fellow subsidiaries	2,024	2,140
– Associates	220	218
– Third parties	27,273	29,624
	29,517	31,982
Bills payable	2,434	3,174
	31,951	35,156

As at 30 June 2017, certain bills payable were secured by bills receivable held by the Group (see Note 16).

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

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Less than one year	24,033	26,296
One to two years	3,451	4,184
Two to three years	2,027	2,320
More than three years	2,440	2,356
	31,951	35,156

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

21. ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Accrued staff wages and welfare benefits	5,255	3,727
Accrued interest payable	1,341	705
Taxes payable other than income tax	6,411	6,911
Dividends payable	60,660	2,665
Receipts in advances	6,119	4,196
Deposits from Shenhua Group and fellow subsidiaries <i>(note (i))</i>	15,725	13,492
Other accrued expenses and payables <i>(note (ii))</i>	12,548	9,665
	108,059	41,361

Notes:

- (i) As at 30 June 2017, deposits from Shenhua Group and fellow subsidiaries bore interest at 0.42% to 1.62% per annum (31 December 2016: 0.42% to 1.62% per annum).
- (ii) Other accrued expenses and payables of the Group include:

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Amounts due to Shenhua Group and fellow subsidiaries	908	1,945
Amounts due to associates	19	54
	927	1,999

The above balances are unsecured, interest-free and payable on demand.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

22. LONG-TERM LIABILITIES

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Payables for acquisition of mining rights (<i>note (i)</i>)	980	1,093
Deferred income (<i>note (ii)</i>)	1,340	1,328
Defined benefit plans	134	147
Others	307	286
	2,761	2,854
Analysed for reporting purpose as:		
– Current liabilities	309	403
– Non-current liabilities	2,452	2,451
	2,761	2,854

Notes:

- (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.

23. 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 2017 are adequate and appropriate.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

24. SHARE CAPITAL

	30 June 2017 RMB million (Unaudited)	31 December 2016 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.

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

As at 30 June 2017, the Group had capital commitments for land and buildings and equipment as follows:

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Contracted for but not provided		
– Land and buildings	21,943	23,604
– Equipment	13,875	17,200
	35,818	40,804

(b) Operating lease commitments

Operating lease commitments mainly represent business premises leased through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. As at 30 June 2017, 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 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Within one year	28	45
After one year but within five years	31	23
After five years	1	–
	60	68

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

25. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(c) Financial guarantees issued

As at 30 June 2017, 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 RMB187 million (31 December 2016: RMB191 million).

As at 30 June 2017, the Group had issued certain guarantees in respect of certain banking facilities granted to an associate of the Group. The maximum amount guaranteed is RMB7 million (31 December 2016: Nil).

(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 2017

26. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

At the end of the reporting period, the Group had net current liabilities of RMB3,385 million (net current assets as at 31 December 2016: RMB21,278 million). The Group utilises cash inflow from operating activities and super short-term debentures, which have been registered in the PRC interbank debenture market and yet to be issued, to fulfill its financing requirements. The Group has unused registered amount of super short-term debentures of RMB40 billion as at 30 June 2017 (31 December 2016: RMB40 billion).

27. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**Fair value of financial assets that are measured at fair value on a recurring basis**

As of 30 June 2017, the Group has investments in derivative financial instruments, tradable wealth management products, and wealth management products which are measured at fair value of Nil (31 December 2016: RMB4 million), RMB51 million (31 December 2016: RMB50 million), and RMB24,459 million (31 December 2016: RMB33,350 million), respectively.

	30 June 2017	31 December 2016	Fair value hierarchy	Valuation technique(s) and key input(s)
	<i>RMB million</i> (Unaudited)	<i>RMB million</i> (Audited)		
Financial assets:				
Derivative financial instruments	–	4	Level 1	Quoted price in an active market.
Tradable wealth management products	51	50	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return of comparable products.
Wealth management products	24,459	33,350	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return of comparable products.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

27. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)**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 2017		31 December 2016	
	Carrying amount <i>RMB million</i> (Unaudited)	Fair value <i>RMB million</i>	Carrying amount <i>RMB million</i> (Audited)	Fair value <i>RMB million</i>
Financial liabilities:				
Fixed rate bank borrowings	4,607	4,710	8,507	8,567
Fixed rate medium-term notes	24,982	25,097	24,974	25,282
Fixed rate bonds	10,099	10,272	10,331	10,436

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.

28. RELATED PARTY TRANSACTIONS**(a) Transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries and associates of the Group**

The Group is controlled by Shenhua Group and has significant transactions and relationships with Shenhua Group, an associate of Shenhua Group and subsidiaries of Shenhua Group ("fellow subsidiaries"). Related parties refer to enterprises over which Shenhua Group is able to exercise significant influence or control. The Group also has entered into transactions with its associates, over which the Group can exercise significant influence.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

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

The Group had the following transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group that were carried out in the normal course of business during both periods:

		Six months ended 30 June	
		2017	2016
		RMB million	RMB million
		(Unaudited)	(Unaudited)
Interest income	(i)	310	297
Income from entrusted loans	(ii)	14	16
Interest expense	(iii)	101	123
Purchases of ancillary materials and spare parts	(iv)	351	366
Mining service income	(v)	–	–
Ancillary and social services	(vi)	109	80
Transportation service income	(vii)	95	64
Transportation service expense	(viii)	–	–
Sale of coal	(ix)	3,403	1,993
Purchase of coal	(x)	5,295	1,879
Property leasing	(xi)	9	31
Repairs and maintenance services expense	(xii)	–	–
Coal export agency expense	(xiii)	7	4
Purchase of equipment and construction work	(xiv)	239	503
Sale of coal chemical product	(xv)	2,368	1,510
Other income	(xvi)	649	896
Granting of loans from Shenhua Finance	(xvii)	2,078	2,584
Repayment of loans from Shenhua Finance	(xviii)	2,127	2,650
Granting of entrusted loan	(xix)	–	–
Repayment of entrusted loan	(xx)	–	–
Net deposits received (paid) by Shenhua Finance	(xxi)	2,232	(10,538)
Loans from Shenhua Group	(xxii)	–	–
Repayment of loans from Shenhua Group	(xxiii)	3,450	1,818

(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.

(iv) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies related to the Group's operations from fellow subsidiaries and an associate of Shenhua Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

28. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries and associates of the Group (Continued)

- (v) Mining service income represents income earned from coal mining services.
- (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 and fellow subsidiaries.
- (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.
- (ix) Sale of coal represents income from sale of coal to fellow subsidiaries.
- (x) Purchase of coal represents coal purchased from associates of the Group, associates of Shenhua Group and fellow subsidiaries.
- (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.
- (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. earned from fellow subsidiaries.
- (xvii) Granting of loans from Shenhua Finance represents loans granted by Shenhua Finance to Shenhua Group and fellow subsidiaries.
- (xviii) Repayment of loans from Shenhua Finance represents loans repaid by Shenhua Group and fellow subsidiaries to Shenhua Finance.
- (xix) Granting of entrusted loan represents an entrusted loan granted.
- (xx) Repayment of entrusted loan represents an entrusted loan repaid.
- (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.
- (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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

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

Amounts due from/to Shenhua Group, an associate of Shenhua Group, fellow subsidiaries and associates of the Group:

	30 June 2017 RMB million (Unaudited)	31 December 2016 RMB million (Audited)
Accounts and bills receivable	3,512	3,458
Prepaid expenses and other current assets	2,926	3,182
Other non-current assets	14,124	13,507
Total amounts due from Shenhua Group, an associate of Shenhua Group, fellow subsidiaries and associates of the Group	20,562	20,147
Borrowings	1,374	4,824
Accounts payable	2,244	2,358
Accrued expenses and other payables	16,652	15,491
Total amounts due to Shenhua Group, an associate of Shenhua Group and fellow subsidiaries, and associates of the Group	20,270	22,673

(b) Key management personnel emoluments

Key management personnel receive compensation in the form of fees, basic salaries, housing and other allowances, benefits in kind, discretionary bonuses and retirement scheme contributions.

Key management personnel compensation of the Group during the period is summarised as follows:

	Six months ended 30 June	
	2017 RMB million (Unaudited)	2016 RMB million (Unaudited)
Short-term employee benefits	4	3
Post-employment benefits	–	–
	4	3

Total remuneration is included in "personnel expenses" as disclosed in Note 9.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

28. RELATED PARTY TRANSACTIONS (Continued)

(c) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments and a supplemental defined contribution pension plan approved by the government for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 29.

(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 government-related entities.

Other than those transactions with Shenhua Group, an associate 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.

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 counterparties regardless of whether the counterparty is government-related or not.

Having considered the potential for transactions to be impacted by related party relationships, the Group's buying, pricing strategy and approval process, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the Directors are of the opinion that the following transactions with other government-related entities require disclosure:

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2017

28. RELATED PARTY TRANSACTIONS (Continued)**(d) Transactions with other government-related entities in the PRC (Continued)****(i) Transactions with other government-related entities, including state-controlled banks in the PRC**

	Six months ended 30 June	
	2017	2016
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Coal revenue	43,300	27,262
Power revenue	35,442	31,440
Transportation costs	5,207	3,652
Interest income	292	158
Interest expenses (including amount capitalised)	2,485	2,358

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

	30 June	31 December
	2017	2016
	RMB million	RMB million
	(Unaudited)	(Audited)
Accounts and bills receivable	12,531	12,354
Prepaid expenses and other current assets	655	1,289
Cash and time deposits at banks	89,307	44,602
Restricted bank deposits	7,485	6,141
Borrowings	70,905	64,578
Accrued expenses and other payables	2,496	3,669

29. 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 2017 were RMB1,381 million (six months ended 30 June 2016: RMB1,359 million).

30. EVENTS AFTER BALANCE SHEET DATE

In August 2017, the Group has decided, in the light of the latest development, to suspend and scale down, as appropriate, the production of two of its open pit coal mines located in Inner Mongolia as the application for the land access, on which further mining activities will be carried out, has not been approved. After due assessment, taking into the land access application progress, the Directors are of the view that no impairment provision is necessary for the said coal mines with approximate carrying amount of RMB6,282 million and RMB3,585 million, respectively.

Section XI Documents Available for Inspection

Documents available for inspection

The interim report for the year 2017 signed by the Vice Chairman

The financial statements signed and sealed by the Vice Chairman, the Chief Financial Officer, and the General Manager of the Financial Department

The original copy of the review report sealed by the accounting firm and signed and sealed by the certified public accountants

The original copies of all documents and announcements of the Company publicly disclosed in the newspapers designated by the CSRC during the reporting period

The interim report for the year 2017 published on the Shanghai Stock Exchange and the Hong Kong Stock Exchange

Ling Wen, *Vice Chairman*

Approval date of the board of directors for submission: 25 August 2017

Section XII 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 2017 Interim Report of the Company, the directors, supervisors and senior management are of the opinion that information disclosed in the 2017 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



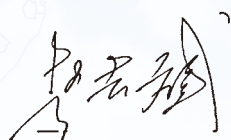
(Ling Wen)



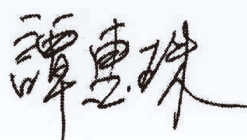
(Han Jianguo)



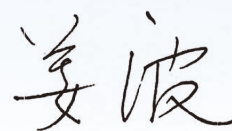
(Li Dong)



(Zhao Jibin)



(Tam Wai Chu, Maria)

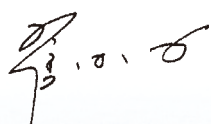


(Jiang Bo)



(Zhong Yingjie, Christina)

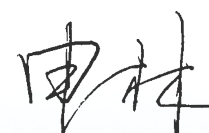
Supervisors



(Zhai Richeng)



(Zhou Dayu)



(Shen Lin)

Section XII Signing Page for Opinions (Continued)

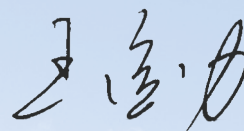
Senior Management



(Ling Wen)



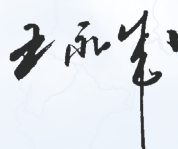
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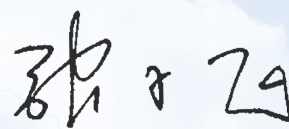
(Wang Jinli)



(Wang Shumin)



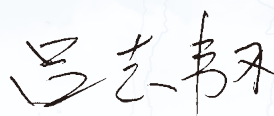
(Wang Yongcheng)



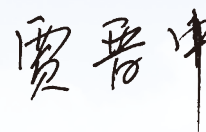
(Zhang Zifei)



(Zhang Jiming)



(Lv Zhiren)



(Jia Jinzhong)



(Huang Qing)



(Zhang Kehui)