中国神华
CHINA SHENHUA

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

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

(Stock Code: 01088)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

- Revenues of the Group in the first half of 2012 were RMB121,468 million, representing an increase of RMB20,317 million or 20.1% over the same period of 2011.
- Profit attributable to equity shareholders of the Company for the period was RMB26,741 million, representing an increase of RMB3,921 million or 17.2% over the same period of 2011.
- Earnings per share for the period was RMB1.344.
- EBITDA[1] in the first half of 2012 was RMB46,248 million, representing an increase of RMB2,349 million or 5.4% over the same period of 2011.

The Board of China Shenhua Energy Company Limited (the "Company") is pleased to present the interim results of the Company and its subsidiaries (the "Group" or "China Shenhua") for the six months ended 30 June 2012 and to report our performance for the period.

Note 1: EBITDA is defined as profit for the period plus net finance costs, income tax, depreciation and amortisation, and excluding investment income and shares of profits less losses of associates.

I. INTERIM FINANCIAL INFORMATION

Financial information extracted from the unaudited interim financial report for the six months ended 30 June 2012 prepared in accordance with International Accounting Standard 34, "Interim financial reporting":

Consolidated statement of comprehensive income
for the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2012	2011
	Note	***RMB million***	*RMB million* (restated- Note 1(a))
Revenues			
Coal revenue		**81,151**	67,830
Power revenue		**35,412**	28,701
Other revenues		**4,905**	4,620
Total operating revenues	3	**121,468**	101,151
Cost of revenues			
Coal purchased		**(33,829)**	(21,405)
Materials, fuel and power		**(9,676)**	(6,294)
Personnel expenses		**(5,081)**	(4,439)
Depreciation and amortisation		**(8,496)**	(7,147)
Repairs and maintenance		**(3,391)**	(2,889)
Transportation charges		**(8,287)**	(8,153)
Others		**(9,745)**	(8,920)
Total cost of revenues		**(78,505)**	(59,247)
Selling, general and administrative expenses		**(5,739)**	(5,035)
Other operating income/(expenses), net		**115**	(568)
Total operating expenses		**(84,129)**	(64,850)
Profit from operations		**37,339**	36,301
Finance income		**508**	725
Finance expenses		**(1,792)**	(1,589)
Net finance costs		**(1,284)**	(864)
Investment income		**1**	–
Share of profits less losses of associates		**174**	170
Profit before income tax		**36,230**	35,607
Income tax	4	**(5,275)**	(9,033)
Profit for the period		**30,955**	26,574
Other comprehensive income			
Exchange differences on translation of financial statements of overseas subsidiaries		**(18)**	132
Total comprehensive income for the period		**30,937**	26,706
Profit attributable to:			
Equity shareholders of the Company		**26,741**	22,820
Non-controlling interests		**4,214**	3,754
Profit for the period		**30,955**	26,574
Total comprehensive income attributable to:			
Equity shareholders of the Company		**26,729**	22,957
Non-controlling interests		**4,208**	3,749
Total comprehensive income for the period		**30,937**	26,706
Earnings per share (RMB)	6		
– Basic		**1.344**	1.147
– Diluted		**1.344**	1.147

Consolidated statement of financial position
at 30 June 2012 – unaudited
(Expressed in Renminbi)

	At 30 June 2012 *RMB million*	At 31 December 2011 *RMB million* (restated- Note 1(a))
Non-current assets		
Property, plant and equipment, net	**224,904**	223,329
Construction in progress	**45,290**	34,384
Intangible assets	**3,650**	3,610
Interest in associates	**4,718**	3,992
Other long-term equity investments	**892**	835
Other non-current assets	**18,204**	18,915
Lease prepayments	**12,518**	11,983
Deferred tax assets	**1,184**	933
Total non-current assets	**311,360**	297,981
Current assets		
Inventories	**17,386**	12,939
Accounts and bills receivable, net	**18,369**	13,618
Prepaid expenses and other current assets	**15,114**	12,694
Restricted bank deposits	**5,637**	4,115
Time deposits with original maturity over three months	**586**	3,508
Cash and cash equivalents	**51,988**	61,652
Total current assets	**109,080**	108,526
Current liabilities		
Short-term borrowings and current portion of long-term borrowings	**11,163**	16,489
Accounts and bills payable	**28,130**	23,763
Accrued expenses and other payables	**46,778**	39,286
Current portion of long-term payables	**227**	271
Income tax payable	**4,001**	7,940
Total current liabilities	**90,299**	87,749
Net current assets	**18,781**	20,777
Total assets less current liabilities	**330,141**	318,758
Non-current liabilities		
Long-term borrowings, less current portion	**44,005**	45,443
Long-term payables, less current portion	**2,292**	2,346
Accrued reclamation obligations	**1,783**	1,724
Deferred tax liabilities	**1,264**	1,131
Total non-current liabilities	**49,344**	50,644
Net assets	**280,797**	268,114
Equity		
Share capital	**19,890**	19,890
Reserves	**214,496**	208,309
Equity attributable to equity shareholders of the Company	**234,386**	228,199
Non-controlling interests	**46,411**	39,915
Total equity	**280,797**	268,114

Consolidated statement of changes in equity
for the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	Equity attributable to equity shareholders of the Company									
	Share capital *RMB million*	Share premium *RMB million*	Capital reserve *RMB million*	Exchange reserve *RMB million*	Statutory reserves *RMB million*	Other reserves *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non–controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2011 (as previously reported)	19,890	85,001	3,612	680	14,921	3,489	77,520	205,113	32,314	237,427
Adjustment in relation to the 2012 Acquisitions (Note 1(a))	–	–	–	21	–	1,315	365	1,701	1,187	2,888
At 1 January 2011 (as restated)	19,890	85,001	3,612	701	14,921	4,804	77,885	206,814	33,501	240,315
Total comprehensive income:										
Profit for the period	–	–	–	–	–	–	22,820	22,820	3,754	26,574
Other comprehensive income (exchange differences on translation of financial statements of overseas subsidiaries)	–	–	–	137	–	–	–	137	(5)	132
Total comprehensive income for the period	–	–	–	137	–	–	22,820	22,957	3,749	26,706
Other movements:										
Dividend declared (Note 5)	–	–	–	–	–	–	(14,917)	(14,917)	–	(14,917)
Appropriation of maintenance and production funds	–	–	–	–	1,885	–	(1,885)	–	–	–
Utilisation of maintenance and production funds	–	–	–	–	(578)	–	578	–	–	–
Appropriation of general reserve	–	–	–	–	242	–	(242)	–	–	–
Contributions from then shareholders in relation to the 2011 Acquisitions and 2012 Acquisitions	–	–	–	–	–	1,055	–	1,055	–	1,055
Distributions to then shareholders in relation to the 2011 Acquisitions and 2012 Acquisitions	–	–	–	–	–	–	(221)	(221)	(190)	(411)
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	895	895
Distributions to non-controlling interests	–	–	–	–	–	–	–	–	(1,599)	(1,599)
Consideration for the 2011 Acquisitions (Note 1(b))	–	–	–	–	–	(10,426)	–	(10,426)	–	(10,426)
Sub-total	–	–	–	–	1,549	(9,371)	(16,687)	(24,509)	(894)	(25,403)
At 30 June 2011 (as restated)	19,890	85,001	3,612	838	16,470	(4,567)	84,018	205,262	36,356	241,618

	Equity attributable to equity shareholders of the Company									
	Share capital *RMB million*	Share premium *RMB million*	Capital reserve *RMB million*	Exchange reserve *RMB million*	Statutory reserves *RMB million*	Other reserves *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non–controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2012 (as previously reported)	19,890	85,001	3,612	626	16,013	(6,372)	107,052	225,822	38,492	264,314
Adjustment in relation to the 2012 Acquisitions (Note 1(a))	–	–	–	34	–	1,915	428	2,377	1,423	3,800
At 1 January 2012 (as restated)	19,890	85,001	3,612	660	16,013	(4,457)	107,480	228,199	39,915	268,114
Total comprehensive income:										
Profit for the period	–	–	–	–	–	–	26,741	26,741	4,214	30,955
Other comprehensive income (exchange differences on translation of financial statements of overseas subsidiaries)	–	–	–	(12)	–	–	–	(12)	(6)	(18)
Total comprehensive income for the period	–	–	–	(12)	–	–	26,741	26,729	4,208	30,937
Other movements:										
Dividend declared (Note 5)	–	–	–	–	–	–	(17,901)	(17,901)	–	(17,901)
Appropriation of maintenance and production funds	–	–	–	–	2,047	–	(2,047)	–	–	–
Utilisation of maintenance and production funds	–	–	–	–	(839)	–	839	–	–	–
Appropriation of general reserve	–	–	–	–	58	–	(58)	–	–	–
Contributions from then shareholders in relation to the 2012 Acquisitions	–	–	–	–	–	150	–	150	–	150
Distributions to then shareholders in relation to the 2012 Acquisitions	–	–	–	–	–	–	(81)	(81)	(81)	(162)
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	3,073	3,073
Distributions to non-controlling interests	–	–	–	–	–	–	–	–	(2,169)	(2,169)
Consideration for the 2012 Acquisitions (Note 1(a))	–	–	–	–	–	(2,710)	–	(2,710)	–	(2,710)
Acquisition of a subsidiary (Note 1(c))	–	–	–	–	–	–	–	–	1,465	1,465
Sub-total	–	–	–	–	1,266	(2,560)	(19,248)	(20,542)	2,288	(18,254)
At 30 June 2012	19,890	85,001	3,612	648	17,279	(7,017)	114,973	234,386	46,411	280,797

Note:

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

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

Consolidated statement of cash flows
for the six months ended 30 June 2012 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2012 RMB million	2011 RMB million (restated-Note 1(a))
Operating activities			
Cash generated from operations		**44,960**	60,759
Interest received		**444**	576
Interest paid		**(1,902)**	(1,608)
Income tax paid		**(9,580)**	(6,989)
Net cash generated from operating activities		**33,922**	52,738
Investing activities			
Capital expenditure		**(15,800)**	(17,412)
Lease prepayments		**(267)**	(75)
Proceeds from disposal of property, plant and equipment		**90**	10
Payment for the 2011 Acquisitions and 2012 Acquisitions	1	**(4,324)**	(8,702)
Acquisition of subsidiaries		**(414)**	–
Capital injections in associates		**(298)**	(58)
Purchase of other long-term equity investments		**(4)**	–
Dividend received from associates		**106**	78
Proceeds from trading debt securities		**73**	–
Net increase in restricted bank deposits		**(1,522)**	(5,585)
Increase in time deposits with original maturity over three months		**(505)**	(2,738)
Maturity of time deposits with original maturity over three months		**3,427**	2,770
Repayment of entrusted loan from a third party		**–**	3,000
Net cash used in investing activities		**(19,438)**	(28,712)
Financing activities			
Proceeds from borrowings		**4,583**	2,506
Repayments of borrowings		**(13,595)**	(14,160)
Contributions from non-controlling interests		**3,073**	895
Distributions to non-controlling interests		**(3,046)**	(1,774)
Dividend paid to equity shareholders of the Company		**(15,149)**	(14,917)
Contributions from then shareholders in relation to the 2011 Acquisitions and 2012 Acquisitions		**150**	1,055
Distributions to then shareholders in relation to the 2011 Acquisitions and 2012 Acquisitions		**(162)**	(275)
Net cash used in financing activities		**(24,146)**	(26,670)
Net decrease in cash and cash equivalents		**(9,662)**	(2,644)
Cash and cash equivalents, at the beginning of the period		**61,652**	77,302
Effect of foreign exchange rate changes		**(2)**	1
Cash and cash equivalents, at the end of the period		**51,988**	74,659

Notes to the unaudited interim financial information
for the six months ended 30 June 2012
(Expressed in Renminbi)

1 Acquisitions

(a) Acquisitions from Shenhua Group in 2012

Pursuant to a resolution passed at the directors' meeting on 1 March 2012, the Company acquired the equity interests of certain entities held directly or indirectly by Shenhua Group, including:

- 50.00% equity interest in Guohua Taicang Power Co., Ltd.;
- 100.00% equity interest in Shenhua International (Hong Kong) Co., Ltd.; and
- 60.00% equity interest in Shenhua Bayannur Energy Co., Ltd.

, collectively referred to as the "2012 Acquisitions".

During the six months ended 30 June 2012, the Company has paid RMB2,710 million with reference to the valuation of the 2012 Acquisitions as at 30 September 2011 (the "valuation date") as consideration for the 2012 Acquisitions.

As the Group and the entities acquired in the 2012 Acquisitions were under common control of Shenhua Group, the above acquisitions are considered as a combination of entities under common control. Accordingly, the assets and liabilities of these acquisitions have been accounted for at historical cost and the consolidated financial statements of the Group prior to these acquisitions have been restated to include the results of operations of these acquisitions on a combined basis. The consideration paid by the Company for these acquisitions has been accounted for as an equity transaction in the consolidated statement of changes in equity.

(b) Acquisitions from Shenhua Group in 2011

Pursuant to a resolution passed at the extraordinary general meeting on 25 February 2011, the Company acquired the equity interests and assets of certain subsidiaries held directly or indirectly by Shenhua Group, including:

- 56.61% equity interest in Shenhua Baorixile Energy Co., Ltd.;
- 80.00% equity interest in Inner Mongolia Guohua Hulunbeier Power Generation Co., Ltd.;
- 60.10% equity interest in Hulunbeier Shenhua Clean Coal Co., Ltd.;
- 95.00% equity interest in Shaanxi Jihua Chaijiagou Mining Co., Ltd.;
- 59.29% equity interest in Shenhua Finance Co., Ltd.;
- 100.00% equity interest in Shenhua Material Trading Co., Ltd.;
- 100.00% equity interest in Shenhua Tianhong Trading Co., Ltd.;
- 80.00% equity interest in Shenhua Hollysys Information Technology Co., Ltd.;
- 100.00% equity interest in Shenhua Geological Exploration Co., Ltd.; and
- Major operating assets and related liabilities of Shenhua Group Baotou Mining Co., Ltd.

, collectively referred to as the "2011 Acquisitions".

The Company has paid RMB8,702 million during the six months ended 30 June 2011 and RMB1,614 million during the six months ended 30 June 2012 as consideration for the 2011 Acquisitions.

(c) *Acquisitions from third party*

During the six months ended 30 June 2012, the Group acquired 51% equity interest in Sichuan Bashu Power Development Company Limited ("Sichuan Bashu") from Sichuan Provincial Investment Group Company Limited at a cash consideration of RMB1,651 million.

Details of fair values of identifiable assets and liabilities of Sichuan Bashu as at the date of acquisition were as follows:

	RMB million
Cash consideration	**1,651**
Non-current assets	**3,922**
Cash and cash equivalents	**2,096**
Other current assets	**693**
Current liabilities	**(1,780)**
Non-current liabilities	**(1,971)**
Net assets	**2,960**
Non-controlling interests	**(1,465)**
	1,495
Goodwill recognised	**156**

2 New and revised International Financial Reporting Standards ("IFRSs")

The International Accounting Standards Board has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's financial statements and the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Revenues

The Group is principally engaged in the production and sale of coal, generation and sale of power and the provision of transportation services in the PRC. Revenues represent the aggregate of the invoiced value of goods sold and services provided, net of sales taxes.

4 Income tax

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million* (restated- Note 1(a))
Provision for PRC income tax	**5,641**	9,330
Deferred taxation	**(366)**	(297)
	5,275	9,033

The provision for PRC current income tax is based on a statutory rate of 25% (six months ended 30 June 2011: 25%) of the assessable profit of the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain branches and subsidiaries of the Group, which are taxed at preferential rates.

Pursuant to the grandfathering arrangement under the Corporate Income Tax Law of the PRC and the relevant documents issued by the state tax bureau of the PRC, the Group's branches and subsidiaries with operations in the western developing region of the PRC were entitled to preferential tax rate of 15% until 2010. In accordance with the relevant documents issued by the state and local tax bureau of the PRC in 2011 and 2012, certain of the Group's branches and subsidiaries operating in the western developing region of the PRC previously granted the preferential tax rate of 15% continue to enjoy such preferential tax rate from 2011 to 2020. The Group's other subsidiaries which are entitled to preferential tax rates would be subject to a transitional tax rate beginning in year 2008. The transitional tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 and after, respectively.

The applicable tax rates of the subsidiaries established in Australia and Indonesia are 30% (six months ended 30 June 2011: 30%) and 25% (six months ended 30 June 2011: 25%) respectively. No provision for income tax was made for these overseas subsidiaries as there were no assessable profits during the current and prior periods.

5 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors have not proposed the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Final dividend in respect of the previous financial year approved during the following interim period	**17,901**	14,917

A final dividend of RMB0.90 per share totalling RMB17,901 million in respect of the year ended 31 December 2011 was approved at the annual general meeting held on 25 May 2012 and was subsequently paid in June and July 2012.

Pursuant to the shareholders' approval at the annual general meeting held on 27 May 2011, a final dividend of RMB0.75 per share totalling RMB14,917 million in respect of the year ended 31 December 2010 was paid in June 2011.

6 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 was based on the profit attributable to ordinary equity shareholders of the Company of RMB26,741 million (six months ended 30 June 2011: RMB22,820 million as restated) and the number of shares in issue during the six months ended 30 June 2012 of 19,890 million (six months ended 30 June 2011: 19,890 million).

The amount of diluted earnings per share is the same as basic earnings per share as there were no dilutive potential ordinary shares in existence during both the current and prior periods.

7 Comparative figures

Certain comparative figures have been adjusted as a result of the 2012 Acquisitions. Further details are disclosed in Note 1(a).

8 Review of interim financial results

The interim financial results for the six months ended 30 June 2012 have been reviewed with no disagreement by the Audit Committee of the Company.

II. CHAIRMAN'S STATEMENT

On behalf of the board of directors, I am delighted to present the 2012 interim report of China Shenhua and report to all shareholders on the Company's performance for the period.

In the first half of 2012, the lackluster global economy and the slowdown in the growth of the Chinese economy began to weigh on the coal economy of the PRC, with coal price plunging from high level. Despite the drastic changes in the market, China Shenhua, by strictly adhering to its corporate development strategy, proactively responded to such changes, fully leveraged on its integrated operation and continued to cement and strengthen its competitive edge. As a result, the Company effectively overcame the negative impact of adverse factors and achieved continuous growth of its results.

As at 30 June 2012, the market capitalization of China Shenhua totalled USD70.46 billion, ranking the first among the listed coal companies worldwide and the fourth among the listed integrated mining companies worldwide.

Fully leveraged on the integrated operation to achieve continuous growth of production and operation

In the first half of 2012, the Company proactively responded to market changes, fully leveraged on the advantage of integrated operation, coordinated and organized various business segments. As a result, the Company achieved continuous growth in both production and operation:

- The production volume of commercial coal reached 155.8 million tonnes and sales volume reached 222.1 million tonnes, representing a year-on-year growth of 11.0% and 16.2% respectively.

- The total power output dispatch reached 95.66 billion kwh, representing a year-on-year increase of 15.3%; the total installed capacity of power generators reached 39,911 MW, representing an increase of 3.9% as compared with that of the beginning of the year.

- The transportation turnover of self-owned railway was 87.0 billion tonne km, representing a year-on-year increase of 7.8%, and the seaborne coal sales volume reached 120.4 million tonnes, representing a year-on-year increase of 17.2%; shipping volume reached 47.4 million tonnes, representing a year-on-year increase of 26.4%.

- Revenues amounted to RMB121.468 billion, representing a year-on-year increase of 20.1%.

- Profit attributable to equity shareholders of the Company for the period was RMB26.741 billion, representing a year-on-year increase of 17.2%.

- Basic earnings per share were RMB1.344, representing a year-on-year increase of 17.2%.

- Net cash generated from operating activities was RMB33.922 billion, representing a year-on-year decrease of 35.7%.

In order to tackle the short-term drastic changes of the market, the Company, by adhering to the principle of maximizing interests, enhanced the organization and coordination of various business segments, optimized the connection among production, transportation and sales, and thus effectively alleviated the adverse impact on coordinated production. This further consolidated and elaborated the advantages of integrated operation. The integrated operation model comprising coal, transportation and power segments made the Company in a leading position in the industry in terms of anti-risk capability.

The coal segment made steady progress in coal production by strengthening production organisation. Shendong Mines optimized production organization and strengthened the management on coal quality to realise stable and high output. Zhunge'er Mines fully leveraged on its outbound shipping advantage and thus realized continuous growth of production. The capacity expansion projects in Heidaigou mine and Ha'erwusu mine of Zhunge'er Mines are expected to be completed by the end of this year. Shengli Mines and Shenbao Mines recorded a notable growth in commercial coal production, while the capacity expansion project of Shengli Mines was well in progress. The mining license and permit application, construction planning and preliminary preparation for Xinjie Taigemiao Exploration Area were progressing smoothly.

The power segment continued to strengthen operation management and made more efforts to expand market share. Under the sales strategy to maximize power output, stability management on generators was further improved. Efforts were made to give full play to the synergy effect generated from the internal coal and power segments with an aim to expand market share. In the first half of 2012, the average utilization hours of coal-fired generators were 2,603 hours, 114 hours above the average of thermal power plants of the PRC; and with a net increase of 1,498 MW in installed capacity, the Company ranked among the top tier in the industry in terms of total installed capacity.

The transportation segment stepped up efforts of organisation and coordination to ensure the smooth connection between production and sales. Reasonable transportation plans were arranged, and the expansion projects for Shuohuang Railway and other existing railways were promoted. Bazhun Railway and Zhunchi Railway progressed smoothly, and Ganquan Railway is expected to commence trial operation within this year. Having overcome such negative factors as the high inventory and unfavorable weather conditions, self-owned ports and shipping companies enhanced dispatching and management, and therefore realised highly efficient operation. While Huanghua Port was progressing steadily with its expansion project, Tianjin Coal Dock Phase II Project and Zhuhai Gaolan Port Project have been approved.

The Company's Watermark coal project in Australia has obtained the guiding opinions from local government on environment evaluation. The integrated coal and power project in South Sumatra, Indonesia was in sound operation, posting commercial coal production of 0.9 million tonne and power output dispatch of 0.72 billion kwh in the first half of 2012.

Proactively responded to market changes and firmly implemented the mega-sales strategy

Adhering to the principle of maximizing the interests of the Company as a whole, the Company integrated and established a quickly-reacting form of centralized sales system with marketing as the priority in a bid to improve coal quality management and customer service, as well as to optimize the pricing mechanism of spot sales. In addition to prioritising seaborne coal sales, the Company also fully leveraged on the sales of coal purchased from third parties, strengthened the exploration of the southern market through south-bound railway transportation and the import and export market which improved the Company's capability to tackle the drastic changes in the coal market in a flexible manner and effectively pushed forward the implementation of the mega-sales strategy.

Despite the weakening coal market, the commercial coal sales volume of the Company exceeded 50% of the annual target. The Company continued to consolidate its market share in the coastal thermal coal market and witnessed an increase in the average coal sales price.

Continuously carried out acquisition of assets from the controlling shareholder and further pushed ahead regional strategic cooperation

The Company completed three equity and one asset acquisitions from its controlling shareholder including Taicang Power, etc. Furthermore, the Company started another round of asset acquisition for the Coal Liquefaction and Chemical Company and its supporting coal mine.

The Company has been implementing its strategy of developing and acquiring power assets since early 2012. During the reporting period, the Company acquired the equity interests in Bashu Power and became its controlling shareholder. The acquisition offered an additional installed capacity of coal-fired generators of 1,260 MW. Shenwan Energy Company and Bashu Power in aggregate contributed 8.4% of the Company's total power output dispatch for the reporting period.

Strengthened fundamental management and constantly fulfilled corporate social responsibility

Focusing on fundamental management improvement, the Company continued to promote benchmarking to further consolidate its competitive edge brought by low-cost operation while improving the refined management with in-depth application of information technology. The Company recognized the importance of social responsibility, as demonstrated by its continuous efforts in safety production, technological innovation, low carbon economy and harmonious development. In the first half of 2012, the Company constantly intensified safety management, and the fatality rate per million tonnes of raw coal production was 0.0059, lower than that of key state-owned coal companies of 0.109 during the same period, which demonstrated that the safety management of the Company had achieved the world's leading standard.

In the second half of 2012: striving to overcome challenges and achieve the annual operating target

Since the second quarter of 2012, China has witnessed slower economic development, and coal price as well as power generation growth began to fall.

In view of the long-term positive economic development and the energy reserve structure with a majority of coal resources in the PRC, the Company is full of confidence in the outlook of the coal-based energy industry in the PRC. Looking into the second half of 2012, the board of directors of the Company will adhere to its development strategy, consolidate the advantage in integrated operation, focus on marketing and continuously improve fundamental management, and strive to overcome the challenges to accomplish the annual operating target. It will focus on the following endeavors:

- **To implement the developmental strategy of establishing itself as a world first-class enterprise**. The Company will start with the improvement in fundamental management, aiming to optimise, consolidate and develop the integrated mode of operation and competitive edge. It will also upgrade the economic development mode in full scale and perfect its industrial mode and layout which conform to market development, so as to implement the developmental strategy of establishing itself as a world first-class enterprise.

- **To enhance reacting capability to fully advance the mega-sales strategy**. The Company put strong emphasis on marketing, which is a priority at present. Leveraging on the integrated model of operation which generates synergy effects, the Company will be able to respond to the market changes in a flexible manner. Efforts will be made to optimize its sales strategy, structure and pricing mechanism, perfect the organization of coal sources and coal quality management, improve customer services and consolidate and develop the domestic and overseas markets.

- **To focus on safety precaution to ensure production and new projects construction in a safe and stable manner**. The Company will continuously improve its intrinsic-safety management system, boost production and construction standardization and make rational production and construction schedules to ensure production and construction of all business segments in a safe and stable manner.

- **To carry forward cost control thoroughly**. Through systematic benchmarking, the Company will thoroughly carry forward cost control, with upgraded budget management, comprehensive control over non-production expenses, enhanced centralized capital budgeting system and refined financial management to consolidate its competitive edge in low-cost operation.

- **To boost the domestic and overseas development**. Grasping opportunities, the Company will extend the business presence of its power and transportation segments to promote the domestic and overseas projects in a pragmatic manner.

Confronting the new situation and challenges, China Shenhua is full of confidence to tackle the complex business environment in a proper manner, actively implement the development strategy and make unremitting efforts to realize its annual business goals and to build itself into a world first-class coal-based integrated energy enterprise with global competitiveness and to create more value for all shareholders.

III. MANAGEMENT DISCUSSION AND ANALYSIS

Summary

In the first half of 2012, given the impact of the weak global economy and the slowdown of the economic growth in China, the coal market in China has been experiencing drastic changes since the beginning of second quarter. Bloated inventory of coal and the significant increase in imported coal rapidly pulled down the price of coal. In response to the severe situation, China Shenhua acted promptly and proactively. The Company capitalized on its advantage of integrated operation and achieved stable growth in production and operation by taking sales as the forerunner and obtaining synergy effect in power and transportation business.

In the first half of 2012, commercial coal production volume of the Company amounted to 155.8 million tonnes (first half of 2011: 140.4 million tonnes (restated)), representing a year-on-year increase of 11.0%; sales volume of coal reached 222.1 million tonnes (first half of 2011: 191.2 million tonnes (restated)), representing a year-on-year increase of 16.2%; seaborne coal sales volume reached 120.4 million tonnes (first half of 2011: 102.7 million tonnes (restated)), representing a year-on-year increase of 17.2%; gross power generation and total power output dispatch reached 102.73 billion kwh (first half of 2011: 89.01 billion kwh (restated)) and 95.66 billion kwh (first half of 2011: 82.99 billion kwh (restated)) respectively representing a year-on-year increase of 15.4% and 15.3% respectively; transportation turnover of self-owned railway reached 87.0 billion tonne kilometers (first half of 2011: 80.7 billion tonne kilometers (restated)), representing a year-on-year growth of 7.8%; shipping volume amounted to 47.4 million tonnes, representing a year-on-year increase of 26.4% (restated).

Pursuant to the International Financial Reporting Standards, the revenues of the Group for the first half of 2012 were RMB121.468 billion (first half of 2011: RMB101.151 billion (restated)), representing a year-on-year increase of 20.1%; profit from operations were RMB37.339 billion (first half of 2011: RMB36.301 billion (restated)), representing a year-on-year increase of 2.9%; profit attributable to equity shareholders of the Company for the reporting period was RMB26.741 billion (first half of 2011: RMB22.820 billion (restated)), representing a year-on-year increase of 17.2%. Basic earnings per share[1] of the Group was RMB1.344 (first half of 2011: RMB1.147 (restated)), representing a year-on-year increase of 17.2%.

As at 30 June 2012, equity attributable to equity shareholders of the Group per share was RMB11.78 (31 December 2011: RMB11.47 (restated)), representing an increase of 2.7%. At as 30 June 2012, the Group's return on total assets[2] was 7.4%. Return on net assets[3] as at the end of the reporting period was 11.4% (first half of 2011: 10.0% (restated)), representing a year-on-year increase of 1.4 percentage points; EBITDA[4] was RMB46.248 billion (first half of 2011: RMB43.899 billion (restated)), representing a year-on-year increase of 5.4%. As at 30 June 2012, the Group's total debt to equity ratio[5] was 16.5%, representing a decrease of 2.3 percentage points as compared to 18.8% (restated) as at 31 December 2011.

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1 Basic earnings per share are calculated on the basis of profit attributable to equity shareholders of the Company for the period and the weighted average number of shares for the reporting period.

2 Return on total assets is calculated on the basis of profit for the period and the total assets at the end of the period.

3 Return on net assets as at the end of the period is calculated on the basis of equity attributable to equity shareholders of the Company as at the end of the period and the profit attributable to equity shareholders of the Company for the period.

4 EBITDA is a method for the management to assess the performance of the Company. It is defined as profit for the period plus net finance costs, income tax and depreciation and amortisation, and net of investment income and share of profits less losses of associates. The EBITDA presented herein by the Company is used as extra reference for investors with regard to business performance, as management of the Company considers EBITDA is popularly used by securities analysts, investors and other parties concerned as a criterion for the evaluation of the performance of mining companies, which is believed to be helpful to investors. EBITDA is not yet an item acknowledged by the International Financial Reporting Standards. You should not take it as an alternative indicator of profit for the relevant accounting period to evaluate achievements or performances, nor shall it be taken as an alternative indicator for cash flows generated from operating activities to evaluate liquidity. The calculation of EBITDA by the Company may be different from that of other companies; therefore comparability may be limited. In addition, EBITDA is not intended to be the basis for free cash flows that may be used by the management at their discretion, because it does not reflect requirements for cash such as interest expenses, tax payment and repayment of debts, etc.

5 Total debt to equity ratio = [long-term interest bearing debts+short-term interest bearing debts (including bills payable)]/[long-term interest bearing debts+short-term interest bearing debts (including bills payable)+total equity]

Management review on operating results by business segment

A. Coal segment

1. Business Progress

(1) Coal production and mining operation

In the first half of the year, the Company closely monitored the market changes, stepped up efforts on the production and coordination of the existing mines based on the actual sales conditions, and made reasonable arrangements for drivage continuation and arranged inspection and maintenance of mines timely. Commercial coal production volume amounted to 155.8 million tonnes, accounting for 53.7% of the annual target.

Shendong Mines overcame the impact of factors such as the complicated geological conditions of working face of certain mines and adjustment for production continuation, stepped up efforts on the coordination of coal production and basic management of safety. The production volume of commercial coal amounted to 91.9 million tonnes, representing a year-on-year increase of 3.7 million tonnes. The increase in production primarily came from Daliuta mine, Bulianta mine, Buer'tai mine and Jinjie mine.

Zhunge'er Mines capitalized on its own industrial layout and outbound shipping advantage, and produced commercial coal of 29.5 million tonnes, representing a year-on-year increase of 2.8 million tonnes. Capacity expansion and upgrade projects of Heidaigou mine and Ha'erwusu mine progressed smoothly and are expected to be completed by the end of the year. There has been new progress in the comprehensive utilization of coal associated resources from mines and the project on extraction of dioxide aluminium progressed smoothly.

With the continuous optimization of its mining plan, the production volume of commercial coal in Shengli Mines amounted to 14.1 million tonnes, representing a year-on-year increase of 2.7 million tonnes. The Company enhanced the management and control over coal quality and optimized the structure of products, which resulted in a year-on-year increase of the heat value of commercial coal. In the first half of the year, with the commencement of a new round of capacity expansion project Shengli No.1 Open-pit Mine (with designed capacity of 20.0 million tonnes/year), the annual production capacity is expected to be expanded to 30.0 million tonnes/year by the end of 2012.

Despite the adverse factors of extreme cold weather, the short supply of production equipment and the intensifying market competition, Shenbao Energy Company's production volume of commercial coal reached 16.7 million tonnes, representing a year-on-year increase of 4.2 million tonnes or 33.6%. The application on the approval of the new construction project at Shenbao No.2 Open-pit Mine progressed smoothly.

(2) Coal mine production safety

In the first half of 2012, to achieve safe production and steady production, the Company launched the "revealing insufficiencies for rectification and enhancement" activity to continuously push ahead the building of intrinsic-safety management system in full swing through optimizing system and safety training to improve the safety management level on an ongoing basis. In the first half of 2012, the fatality rate per million tonnes of raw coal output of the Company was 0.0059, lower than 0.109 of key state-owned coal companies during the same period, which demonstrated that the safety management of the Company had achieved the world's leading standard.

(3) Coal resources

As at 30 June 2012, the Group had recoverable coal reserve of 15.225 billion tonnes and coal resource of 25.298 billion tonnes under the PRC Standard; the Group's marketable coal reserve was 9.199 billion tonnes under the JORC Standard.

In the first half of 2012, the Company's exploration expenses amounted to approximately RMB134 million which was mainly attributed to the relevant exploration expenses of the Watermark Coal Project in Australia.

In the first half of 2012, the Company's relevant capital expenditure of mining development and exploration amounted to approximately RMB3.265 billion, which was mainly attributed to the mining expenses of Shendong Mines and Beidian Shengli open-cut mines, as well as the capacity expansion and upgrade projects of Ha'erwusu mine and Heidaigou mine.

2. *Coal Sales*

In the first half of 2012, coal sales price experienced a downturn due to the dual impact from a rapid slowdown in domestic coal demand and increasing amount of imported coal. Facing changes in market condition, the Company continued to promote the implementation of mega-sales strategy and adopt a flexible and effective sales strategy to capture business opportunities amid challenges to ensure the normal and safe operation of the Company's production, transportation and sales. In the first half of the year, the Company realized the sales volume of commercial coal of 222.1 million tonnes, accounting for 54.1% of the annual target.

- Fully leveraged on the advantage of integrated operation model. The Group increased the coal inventory and supplies to the power segment to alleviate the pressure on external sales, which mitigated the negative impact on the Company's operation from declining coal price to a certain extent.

- Further upholding the sales-orientated approach as the cornerstone to arrange production and operation in a market-oriented manner. Reasonable alignment on the types of coal was carried out to increase the supplies of the saleable types of coal in the market. The Company also formulated flexible coal sales pricing strategy to adjust the sales price timely and suspended or reduced the volume of coal purchased from third parties in an appropriate manner to ensure the sales of self-produced coal in priority.

- Active exploration of new markets. The Company captured opportunity based on the abundant railway transportation capacity to explore the markets in the southern areas along the Beijing-Guangzhou Railway, Beijing-Kowloon Railway and Beijing-Shanghai Railway to enhance the external transportation channels of coal for the Company.

- Deepening of participation in the international coal trading market. Without affecting the sales of self-produced coal, the Company stepped up efforts in sales of imported coal appropriately.

(1) Domestic sales and export

	First half of 2012			First half of 2011 (restated)			
	Sales volume	**Proportion to total sales**	**Sales price**	Sales volume	Proportion to total sales	Sales price	Change in sales price
	million tonnes	**%**	***RMB/tonne***	*million tonnes*	%	*RMB/tonne*	%
Domestic sales	**219.8**	**99.0**	**435.5**	188.0	98.3	424.5	2.6
Long-term contract sales	**88.9**	**40.0**	**348.4**	87.4	45.7	333.3	4.5
Mine mouth	**6.9**	**3.1**	**188.9**	4.7	2.5	169.5	11.4
Direct arrival (along railway)	**44.0**	**19.8**	**259.1**	41.0	21.4	233.1	11.2
Seaborne	**38.0**	**17.1**	**481.0**	41.7	21.8	450.3	6.8
Spot sales	**130.9**	**59.0**	**494.8**	100.6	52.6	503.8	(1.8)
Mine mouth	**19.0**	**8.6**	**146.5**	18.9	9.9	132.9	10.2
Direct arrival (along railway)	**31.8**	**14.3**	**441.1**	23.9	12.5	493.5	(10.6)
Seaborne	**80.1**	**36.1**	**598.8**	57.8	30.2	629.4	(4.9)
Export Sales	**2.2**	**1.0**	**775.6**	3.2	1.7	668.6	16.0
Total coal sales volume/weighted average price	**222.1**	**100.0**	**439.4**	191.2	100.0	428.6	2.5

In the first half of 2012, domestic sales volume of the Company amounted to 219.8 million tonnes (first half of 2011: 188.0 million tonnes (restated)), representing a year-on-year increase of 16.9% and accounting for 99.0% of the sales volume of coal. Among which, spot sales amounted to 130.9 million tonnes (first half of 2011: 100.6 million tonnes (restated)), accounting for 52.6% (restated) of the total sales volume of the first half of 2011, which increased to 59.0% in the first half of 2012. In the first half of 2012, the Company's domestic seaborne coal sales volume was 118.1 million tonnes while the national coal transshipment volume for domestic coal sales through domestic ports was 312 million tonnes, based on which the market share of China Shenhua in coastal coal markets was estimated at approximately 37.9%. In the first half of 2012, the weighted average domestic coal sales price of the Company amounted to RMB435.5/tonne (first half of 2011: RMB424.5/tonne (restated)), representing a year-on-year increase of 2.6%.

In the first half of 2012, the sales volume of the Company to the top five domestic customers of coal was 26.4 million tonnes, which accounted for 12.0% of the total domestic sales, of which, the sales volume to the largest customer was 6.4 million tonnes, which accounted for 2.9% of total domestic sales volume. The top five domestic customers of coal were either power generation companies or fuel companies.

In the first half of 2012, the coal export volume of the Company was 2.2 million tonnes, representing a year-on-year decrease of 31.3% (restated). The proportion of export sales to total sales volume of coal decreased to 1.0% from 1.7% (restated) in the first half of 2011. In the first half of 2012, the coal export sales price was RMB775.6/tonne (first half of 2011: RMB668.6/tonne (restated)), representing a year-on-year increase of 16.0%.

In the first half of 2012, the sales volume of the Company to the top five export coal customers was 1.4 million tonnes, which accounted for 63.6% of the total export sales volume, of which, the sales volume to the largest customer was 0.5 million tonne, which accounted for 22.7% of total export sales volume. The top five export customers were either power companies or chemical companies.

In the first half of the year, the weighted average sales price of coal of the Company was RMB439.4/tonne, representing a year-on-year increase of 2.5% (restated), which was lower than the year-on-year increment of 5.8% in the first quarter of this year. In the second quarter, the weighted average price of coal of the Company was RMB437.8/tonne, representing a decrease of RMB3.4/tonne as compared with RMB441.2/tonne in the first quarter, which was mainly attributed to the decreasing spot coal price for direct arrival sales and seaborne coal sales starting from the second quarter as a result of the weak domestic demand of coal.

(2) Sales to external customers and internal power segment

	First half of 2012			First half of 2011 (restated)			
	Sales volume	**Percentage**	**Sales price**	Sales volume	Percentage	Sales price	Change in sales price
	million tonnes	**%**	***RMB/tonne***	*million tonnes*	%	*RMB/tonne*	%
Sales to internal power segment	**39.9**	**18.0**	**411.8**	35.4	18.5	398.5	3.3
Sales to external customers	**182.2**	**82.0**	**445.5**	155.8	81.5	435.5	2.3
Total coal sales volume/weighted average price	**222.1**	**100.0**	**439.4**	191.2	100.0	428.6	2.5

In the first half of 2012, the volume of coal sales of the Company to external customers was 182.2 million tonnes (first half of 2011: 155.8 million tonnes (restated)), representing a year-on-year increase of 16.9%. Coal sales price to external customers amounted to RMB445.5/tonne (first half of 2011: RMB435.5/tonne (restated)), representing a year-on-year increase of 2.3%. In the first half of 2012, the sales volume of the Company to the top five external coal customers was 26.4 million tonnes, which accounted for 11.9% of the total sales volume.

In the first half of 2012, the volume of coal sales of the Company to the power segment of the Group was 39.9 million tonnes (first half of 2011: 35.4 million tonnes (restated)), representing a year-on-year increase of 12.7%, and its proportion to total sales volume of coal decreased by 0.5 percentage point to 18.0% as compared with that of the same period of last year (restated); the sales price increased by 3.3% to RMB411.8/tonne from RMB398.5/tonne (restated) of the same period of last year. The sales of coal to the power segment of the Group were mainly made under long-term contracts. The Company adopted identical pricing policy for the sales of coal to internal power segment and external customers on the basis of identical sales method.

(3) Sales of coal purchased from third parties

In the first half of 2012, the coal segment's sales volume of coal purchased from third parties amounted to 72.2 million tonnes (first half of 2011: 48.3 million tonnes (restated)), representing a year-on-year increase of 49.5%.

(4) Sales of imported coal

From January to June, the sales volume of coal imported by the Company amounted to 2.3 million tonnes, accounting for 1.0% of the total sales volume. The average calorific value was approximately 5,200 kcal/kg. Imported coal was mainly sourced from Russia, Indonesia, Columbia and Australia, of which the sales volume of coal imported from Russia and Indonesia amounted to 2.0 million tonnes in total, accounting for 87.0% of the sales volume of imported coal.

3. *Operating results*

The operating results of the coal segment of the Group before elimination on consolidation in the first half of 2012 were as follows:

		For the six months ended 30 June			
		2012	2011 (restated)	Changes	Reasons for changes
Revenues	RMB million	**99,331**	84,339	17.8%	Increased coal sales and price
Cost of revenues	RMB million	**70,894**	55,328	28.1%	
Of which:					
1. Cost of coal production	RMB million	**17,458**	15,183	15.0%	Mainly due to the increase in the production volume of coal and unit production cost
2. Cost of coal purchased from third parties	RMB million	**33,829**	21,405	58.0%	(1) Sales of coal purchased from third parties has increased substantially in the first half of 2012 to 72.2 million tonnes (first half of 2011: 48.3 million tonnes (restated), representing a year-on-year increase of 23.9 million tonnes or 49.5% (2) Increase in unit purchasing cost of coal purchased from third parties, which was RMB468.5/tonne in the first half of 2012 (first half of 2011: RMB443.2/tonne (restated)), representing a year-on-year increase of 5.7%.
Gross profit margin	%	**28.6**	34.4	Decreased by 5.8 percentage points	—
Profit from operations	RMB million	**25,016**	25,446	(1.7%)	—
Margin of profit from operations	%	**25.2**	30.2	Decreased by 5.0 percentage points	—

In the first half of 2012, unit production cost of self-produced coal in the coal segment was RMB116.5/tonne (first half of 2011: RMB106.2/tonne (restated)), representing a year-on-year increase of 9.7%. The main reasons affecting the unit production cost are:

1. Costs of raw materials, fuel and power were RMB24.9/tonne (first half of 2011: RMB19.3/tonne (restated)), representing a year-on-year increase of 29.0%. This increase was mainly due to the Company's increased investments in safety management, the increase in the number of advancing tunnels, and the increase in the number of relevant mining and exploration equipment as a result of the continuing extension of tunnels.

2. Personnel expenses were RMB14.8/tonne (first half of 2011: RMB14.8/tonne (restated));

3. Repairs and maintenance were RMB7.9/tonne (first half of 2011: RMB7.1/tonne (restated)), representing a year-on-year increase of 11.3%. This increase was mainly due to the increase in the number of equipment requiring maintenance due to the periodic maintenance cycle;

4. Depreciation and amortisation were RMB21.2/tonne (first half of 2011: RMB19.2/tonne (restated)), representing a year-on-year increase of 10.4%. This increase was mainly due to the additional machinery and equipment;

5. Other costs were RMB47.7/tonne (first half of 2011: RMB45.8/tonne (restated)), representing a year-on-year increase of 4.1%. This increase was mainly due to the increase in the expense of washing and preparation of coal as well as mining engineering expenses. Other costs consist of the following three components: (1) expenses directly related to production, including washing and preparation of coal as well as mining engineering expenses etc., accounting for approximately 49%; (2) auxiliary production expenses, accounting for approximately 10%; (3) land claiming and surface subsidence compensation, environmental protection expenses, fees levied by local government, etc., accounting for approximately 41%.

B. Power segment

1. Business Progress

China's economic growth slowed down in the first half of 2012, dampening the growth of public demand for electricity. Hydroelectric power generation in China's southern areas increased substantially amid the flood season in April, taking up most of the market share of coal-fired power generation. This resulted in a continual negative month-on-month growth in terms of coal-fired power generation. The Company strengthened the momentum and focused on marketing. Efforts were made to integrate power generators into power grids and reduce the standby rate of its power generators. The gross power generation and total power output dispatch reached 102.73 billion kwh and 95.66 billion kwh respectively, representing a year-on-year growth of 15.4% and 15.3% respectively. Of the total, the gross power generation and total power output dispatch of coal-fired generators were 101.53 billion kwh and 94.50 billion kwh respectively. The average utilization hours of coal-fired generators amounted to 2,603 hours, 114 hours above the average of thermal power plants of 2,489 hours of the PRC. Due to the increase in on-grid power tariffs for thermal power plants in some provinces and cities in last December, the average power tariff of the Company's thermal power plants reached RMB363/mwh, representing an increase of RMB17/mwh as compared with RMB346/mwh of the same period of last year.

In the first half of 2012, the thermal coal consumption of the power segment of the Group was 46.0 million tonnes, of which 39.3 million tonnes or 85.4% were purchased from internal coal segment of Shenhua, representing an increase of 2.4 percentage points as compared to the same period last year.

The Company continued to strengthen its management and control on production on an ongoing basis and to improve the technological indicators, with key energy consumption indicators such as coal consumption for power output dispatch under effective control. The above initiatives also sharpened the competitive edge and improved the management quality of the power segment. The standard coal consumption for power output dispatch of the Company's coal-fired generators stood at 322g/kwh, which was 4g/kwh below the national average.

In the first half of the year, the Company acquired Taicang Power from its controlling shareholder Shenhua Group Corporation. Through such acquisition, the installed capacity of the Company's coal-fired power generators increased by 1,260 MW. In addition, through the acquisition of the equity interest in Bashu Power, the installed capacity of the Company's coal-fired power generators and hydroelectric generators increased by 1,260 MW and 78 MW respectively. The Company continued to push ahead the approval and construction work of new projects such as the Zhundong Wucaiwan Thermal Power Project. The Beijing Gas Thermal Power Project has obtained the approval from the Beijing Municipal Development and Reform Commission. As at 30 June 2012, the Company controlled and operated a total installed capacity of 39,911 MW, an increase of 3.9% as compared with that of 31 December 2011 (restated), among which the Company controlled and operated 91 coal-fired generators, with the average capacity per unit of 429 MW.

2. *Operating results*

The operating results of the power segment the Group before elimination on consolidation in the first half of 2012 were as follows:

		For the six months ended 30 June			
		2012	2011 (restated)	Changes	Reasons for changes
Revenues	RMB million	**36,027**	29,151	23.6%	Increase in power output dispatch and power tariffs
Cost of revenues	RMB million	**28,464**	22,822	24.7%	Increase in power output dispatch and unit cost of power output dispatch
Gross profit margin	%	**21.0**	21.7	Decreased by 0.7 percentage point	–
Profit from operations	RMB million	**6,386**	5,226	22.2%	–
Margin of profit from operations	%	**17.7**	17.9	Decreased by 0.2 percentage point	–

The unit cost of power output dispatch in the first half of 2012 was RMB293.7/mwh (first half of 2011: RMB271.6/mwh (restated)), representing a year-on-year increase of 8.1%. This increase was mainly attributable to the increase in the cost of raw materials, fuel and power as a result of the rise in coal price, and the higher unit cost of the newly acquired and newly operated power plants as compared with the average level of the power segment.

C. *Railway segment*

1. *Business Progress*

Against the backdrop of the drastic changes in the coal market in the first half of 2012, the railway segment further optimized transportation organization, utilized heavy-loaded trains with a capacity of 10,000 tonnes at appropriate time and proactively opened new transportation routes to ensure the smooth delivery of the Company's coal. The transportation turnover of self-owned railway of the Company was 87.0 billion tonne km (first half of 2011: 80.7 billion tonne km (restated)), representing a year-on-year increase of 7.8%, which accounted for 80.0% of the total turnover, an increase of 3.1 percentage points as compared with that of the same period of last year (restated).

In the first half of 2012, the Company significantly intensified the management of locomotives and wagons, with equipment quality improved continuously. The 3,996 railway wagons purchased from the controlling shareholder Shenhua Group Corporation were being progressively put into operation.

The refurbishment and upgrade of the Company's existing railways and the construction of new railways proceeded in an orderly manner. The capacity expansion work of Shenshuo Railway and Shuohuang Railway were carried out as planned. The construction of the new Ganquan Railway is expected to be completed and commence operation during the second half of the year, and the construction of the Bazhun Railway and Zhunchi Railway was under smooth progress.

2. *Operating results*

In the first half of 2012, the operating results of the railway segment of the Group before elimination on consolidation were as follows:

		For the six months ended 30 June			
		2012	2011 (restated)	Changes	Reasons for changes
Revenues	RMB million	**12,312**	11,336	8.6%	The volume of railway transportation increased
Cost of revenues	RMB million	**6,567**	5,855	12.2%	The volume of railway transportation increased, elevating the unit transportation cost
Gross profit margin	%	**46.7**	48.4	Decreased by 1.7 percentage points	—
Profit from operations	RMB million	**5,225**	5,009	4.3%	—
Margin of profit from operations	%	**42.4**	44.2	Decreased by 1.8 percentage points	—

In the first half of 2012, the revenues generated from the internal transportation service provided by the railway segment for the Group amounted to RMB10,821 million (first half of 2011: RMB10,066 million (restated)), representing a year-on-year increase of 7.5%, accounting for 87.9% of the operating revenue of the railway segment. Certain railway lines of the Group provided transportation services to third parties, which generated transportation revenue.

In the first half of 2012, the unit transportation cost in the railway segment was RMB0.075/tonne km (first half of 2011: RMB0.073/tonne km (restated)), representing a year-on-year increase of 2.7%. The increase was mainly due to the increase in personnel expenses as a result of the increase in staff numbers and salaries.

D. *Port segment*

1. *Business Progress*

In the first half of 2012, the self-owned ports of the Company, namely Huanghua Port and Shenhua Tianjin Coal Dock, strengthened the coordination with the sales, railway and shipping segments and optimized the storage structure of the coal yard in a reasonable manner so as to effectively enhance the utilization rate of coal storage yard and enable the safe and effective operation of coal storage yard. In the first half of the year, the coal-loaded volume of Huanghua Port amounted to 51.9 million tonnes, representing a year-on-year increase of 7.5% and the coal-loaded volume of Shenhua Tianjin Coal Dock amounted to 14.4 million tonnes, representing a year-on-year increase of 19.0%.

The construction of Huanghua Port Phase III project with a designed loading capacity of 50.0 million tonnes/year progressed smoothly and is expected to be completed by the end of the year. The Shenhua Tianjin Coal Dock Phase II Project with a designed loading capacity of 35.0 million tonnes/year and the Phase I project of Shenhua Coal Storage and Shipping Centre at Zhuhai Gaolan Port with a designed loading capacity of 20.6 million tonnes/year have been approved by the National Development and Reform Commission.

2. *Operating results*

In the first half of 2012, the operating results of the port segment of the Group before elimination on consolidation were as follows:

		For the six months ended 30 June			
		2012	2011 (restated)	Changes	Reasons for changes
Revenues	RMB million	**1,536**	1,395	10.1%	Mainly due to the growth in seaborne coal
Cost of revenues	RMB million	**946**	883	7.1%	Mainly due to the growth in seaborne coal
Gross profit margin	%	**38.4**	36.7	Increased by 1.7 percentage points	—
Profit from operations	RMB million	**439**	385	14.0%	—
Margin of profit from operations	%	**28.6**	27.6	Increased by 1.0 percentage point	—

In the first half of 2012, the revenues generated from the internal transportation service provided by the port segment for the Group amounted to RMB1,464 million (first half of 2011: RMB1,329 million (restated)), representing a year-on-year increase of 10.2% and accounting for 95.3% of the operating revenue of the port segment. The unit cost of internal transportation service provided for the Group was RMB13.5/tonne (first half of 2011: RMB13.8/tonne (restated)), representing a year-on-year decrease of 2.2%. The decrease was mainly due to a decrease in dredging expenses and the decrease in the unit depreciation and amortisation cost as a result of the increase in volume of operations.

E. Shipping segment

1. *Business Progress*

In the first half of 2012, despite the depressed transportation market in the coastal region of the PRC, the continued decrease in shipment freight and the loss-making shipping industry as a whole, Shenhua Zhonghai Shipping Company, leveraging on the "integrated operation" edge of Shenhua, arranged shipping operations and coordination of vessels in a scientific manner and achieved a rapid growth. In the first half of the year, the shipping volume amounted to 47.4 million tonnes, representing a year-on-year increase of 26.4%. The shipment turnover amounted to 39.7 billion tonne nautical miles, representing a year-on-year increase of 21.4%.

In addition to sharpening its edge over the transportation market of the coastal regions of the PRC, the Company proactively explored new markets and gradually entered new business areas including international shipping and intermodal transportation. Following the Group's acquisitions of riverside power plants, the business chain of the shipping segment was extended to canals. In the first half of the year, the Company explored the transportation channel of north-south coal transportation extending to Chongqing for the first time.

2. *Operating results*

In the first half of 2012, the operating results of the shipping segment of the Group before elimination on consolidation were as follows:

		For the six months ended 30 June			
		2012	2011 (restated)	Changes	Reasons for changes
Revenues	RMB million	**2,151**	2,286	(5.9%)	Mainly due to the decrease in freight
Cost of revenues	RMB million	**1,801**	1,975	(8.8%)	(1) The decrease in intermodal transport cost as a result of the decrease in freight; (2) The decrease in the cost of shipping operation as a result of the change of business tax to value-added tax[Note]
Gross profit margin	%	**16.3**	13.6	Increased by 2.7 percentage points	—
Profit from operations	RMB million	**365**	284	28.5%	—
Margin of profit from operations	%	**17.0**	12.4	Increased by 4.6 percentage points	—

Note: Pursuant to Pilot Program of Levying Value Added Tax in Lieu of Business Tax and the relevant requirements promulgated by Ministry of Finance and State Administration of Taxation, a pilot practice of levying value-added tax in lieu of business tax has been carried out in the transportation industry and part of the modern service industry in Shanghai since 1 January 2012.

In the first half of 2012, the revenues generated from the internal transportation service provided by the shipping segment for the Group amounted to RMB869 million (first half of 2011: RMB892 million (restated)), representing a year-on-year decrease of 2.6% and accounting for 40.4% of the operating revenue of the shipping segment.

In the first half of 2012, the unit transportation cost in the shipping segment was RMB0.045/tonne nautical mile (first half of 2011: RMB0.060/tonne nautical mile (restated)), representing a year-on-year decrease of 25.0%. The decrease was mainly attributable to the increase of shipping turnover which in turn led to a decrease in the unit transportation cost which was higher than that of cost of revenues.

F. Overseas businesses

The Company established the Overseas Investment Company as a platform to promote its internationalization. The progress of the two existing overseas projects in the first half of the year is set out as follows:

1. PT.GH EMM Indonesia Project

The PT.GH EMM Indonesia Project is the first overseas project completed and operated by the Company. Two 150 MW coal-fired generators were put into commercial operation in August and November 2011 respectively. The open-cut mine with an annual production capacity of 2.0 million tonnes commenced mining operation in March 2011. In the first half of 2012, PT.GH EMM Indonesia produced 0.9 million tonne of commercial coal, generated 0.83 billion kwh of power and achieved a power output dispatch of 0.72 billion kwh.

2. Watermark Coal Project in Australia

In the first half of 2012, the Watermark Coal Project had achieved a major breakthrough in obtaining approval that it received guiding opinions from the New South Wales government on environmental assessment.

Management review on consolidated operating results

1. Consolidated operating results

No.	Item	For the six months ended 30 June 2012 *RMB million*	2011 (restated) *RMB million*	Changes %	Reasons for changes
1	Revenues	**121,468**	101,151	20.1	Mainly due to the increase of sales volume of coal and power output dispatch, as well as the rise of the sales price of long-term coal contract and power tariff
	Of which: Domestic market	**119,591**	98,997	20.8	
	Asia Pacific market	**1,877**	2,154	(12.9)	
2	Cost of revenues	**78,505**	59,247	32.5	The increase in volume of coal and power operations resulted in the increase in relevant expenses, of which the cost of coal purchased from third parties recorded a significant increase
3	Other operating income/(expenses), net	**115**	(568)	(120.2)	Mainly attributable to the increase in government subsidies income and decrease in donation expenses during the reporting period
4	Finance income	**508**	725	(29.9)	The decrease in interest income from deposit and net foreign exchange gain
5	Income tax	**5,275**	9,033	(41.6)	The effective income tax rate for the Group was 14.6%, representing a decrease of 10.8 percentage points as compared with that of the first half of 2011 (restated), which was mainly attributable to: (1) The approval of the preferential policies for income tax of the major branches and subsidiaries of the Group in Inner Mongolia and Shaanxi was obtained, the income tax expense for the reporting period was calculated at the preferential tax rate of 15%; (2) Due to the foregoing impact of the change in the preferential policies for income tax, the tax payable for 2011 as well as the carrying value of deferred tax assets and liabilities of certain branches and subsidiaries of the Group have been adjusted during the reporting period.

Due to the expiry of the preferential income tax policies for enterprises engaging in the Grand Development of the Western Region (under which the enterprise income tax levied on the encouraged industries located in the Western Region was calculated at a preferential tax rate of 15%) at the end of 2010, the Group's branches and subsidiaries which have been enjoying this policies were required to make provision for income tax expense at the benchmark rate of 25% for the first half of 2011.

According to the Tax Relief Notice (Cai Shui 2011 no. 58) on the In-depth Implementation of Western Region Development Strategy, the Announcement of the State Administration of Taxation (2012 No.12) on Issues of Enterprise Income Tax Concerning In-depth Implementation of Western Region Development Strategy and other related documents, the Group's major branches and subsidiaries in Inner Mongolia and Shaanxi can continue to enjoy the 15% preferential tax rate from 2011 to 2020.

2. *Consolidated assets and liabilities*

No.	Item	**As at 30 June 2012** *RMB million*	As at 31 December 2011 (restated) *RMB million*	Changes %	Reasons for changes
1	Construction in progress	**45,290**	34,384	31.7	Increase in investment in construction in progress, mainly related to Huangyuchuan mine, the construction of Bazhun Railway and Ganquan Railway, the capacity expansion of Shuohuang Railway, Phase III of Huanghua Port and power plants in construction
2	Inventories	**17,386**	12,939	34.4	Mainly attributable to the increase in coal inventories as well as the increase in number of ancillary materials, spare parts and small tools resulted from the increase in number of equipment requiring maintenance
3	Accounts and bills receivable, net	**18,369**	13,618	34.9	Mainly attributable to the increase in receivables from coal and power sales due to income growth. Customers of the Group who trade on credit terms are those long-term customers of larger business scale with good credit history. The increase in receivables for the reporting period mainly represent the receivables due within one year
4	Restricted bank deposits	**5,637**	4,115	37.0	Mainly attributable to the increase in the statutory deposit reserve deposited in the People's Bank of China by Shenhua Finance Company
5	Time deposits with original maturity over three months	**586**	3,508	(83.3)	Mainly attributable to the maturity of time deposits
6	Short-term borrowings and current portion of long-term borrowings	**11,163**	16,489	(32.3)	(1) The Group gave full play to Shenhua Finance Company as the funding platform to strengthen the internal funding mechanism, resulted in the decrease in short-term borrowings; (2) The maturity of a relatively large portion of long-term borrowings during the reporting period
7	Income tax payable	**4,001**	7,940	(49.6)	Attributable to the extension of the 15% preferential income tax rate granted to certain branches and subsidiaries, the provisions for income tax payable decreased

3. Consolidated cash flows

No.	Item	For the six months ended 30 June 2012 *RMB million*	2011 (restated) *RMB million*	Changes %	Reasons for changes
1	Cash generated from operations	**44,960**	60,759	(26.0)	Mainly attributable to the decreased deposit in Shenhua Finance Company
2	Interest received	**444**	576	(22.9)	The Group gave full play to Shenhua Finance Company as the funding platform to strengthen the internal funding mechanism and reduced the amount of deposit placed with external financial institutions
3	Lease prepayments	**267**	75	256.0	Increased purchase of land use rights during the reporting period
4	Payment for the 2011 Acquisitions and 2012 Acquisitions	**4,324**	8,702	(50.3)	The decrease in related amount paid in relation to acquisition resulted from the smaller scale of equity and assets acquired from Shenhua Group Corporation during the reporting period as compared with that of the first half of 2011
5	Acquisition of subsidiaries	**414**	-	N/A	The net outflow of cash and cash equivalents resulted from the acquisition of Bashu Power and Shenwan Energy Company
6	Capital injections in associates	**298**	58	413.8	Increased investment in new energy associates in the reporting period
7	Net increase in restricted bank deposits	**1,522**	5,585	(72.7)	The statutory deposit reserve of Shenhua Finance Company increased by a lesser amount
8	Contributions from non-controlling interests	**3,073**	895	243.4	The increase in contributions into subsidiaries of the Group, including Shenwan Energy Company, from non-controlling shareholders during the reporting period

Status of accomplishment of 2012 business targets

Status of accomplishment of the Company's key operational indicators of the first half of 2012 are set out as below:

Item	Unit	Accomplishment in the first half of 2012	Targets of 2012[Note]	Percentage of accomplishment in the first half of 2012 to full-year target (%)
Commercial coal production	million tonnes	**155.8**	289.9	53.7
Coal sales	million tonnes	**222.1**	410.5	54.1
Total power output dispatch	billion kwh	**95.66**	199.6	47.9

Note: The 2012 business target does not include the 2012 business target of the Target Company, the acquisition of which was approved at the 22nd meeting of the second session of the board of the Company held on 1 March 2012.

In the first half of the year, despite the drastic changes in the domestic coal market, the Company achieved its operating goals satisfyingly. Leveraging on its integrated operations, and upholding the sales-orientated approach as the cornerstone, the Company will weather any difficulties and reduce its expenses and consumption by improving the level of management with an aim to further enhance the Company's core competitiveness and risk-resistance capability as well as strive to accomplish the business targets of the year.

Review and prospect of business environment[note]

I. Macroeconomic conditions

In the first half of 2012, addressing the mixed and severe economic conditions in China and abroad, Chinese government followed the macro policy of "Making Progress While Maintaining Stability" to correctly balance the targets of stabilizing economic growth, upgrading economic structure and managing inflation expectation, with a higher priority placed on stabilizing growth. By implementing proactive fiscal policy and prudent monetary policy, the national economy achieved the overall stability with a sound growth. In the first half of the year, the GDP growth was 7.8% on a year-on-year basis, of which the first quarter and the second quarter recorded an increase of 8.1% and 7.6% respectively.

Looking into the second half of 2012, the central government will adhere to the key note of "Making Progress While Maintaining Stability" to carry forward the proactive fiscal policy and prudent monetary policy, attaching a higher priority to stabilizing growth while emphasizing the role of pre-adjustment and refinement, so as to achieve a steady turnaround of national economy. The macroeconomic improvement will be beneficial for the recovery of energy demand for coal and other fundamental energy resources.

Notes:

(1) This section is for information only and does not constitute any investment advice. The Company has used its best endeavors 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 in 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.

(2) The data contained in this section is mainly derived from sources such as the National Bureau of Statistics, China Coal Market Network, China Coal Resource Network and China Electricity Council, etc.

II. *Market environment of the coal industry*

1. *Thermal coal market in China*

Review of the first half of 2012

In the first half of 2012, the domestic coal market was characterized by an overall declining trend along with the slower economic paces. Since the beginning of the second quarter, coal prices have experienced a plunge with a dynamic imbalance between coal supply and demand, due to the short-term factors such as the slack season for coal consumption, abundant rainfall and the surge in coal import coupled with the sluggish coal demand. As at the end of June 2012, the price of Shanxi 5,500 kcal premium mixed coal at Qinhuangdao fell to RMB670 per tonne, decreasing by 16% as compared with RMB805 per tonne at the beginning of the year.

As a result of the momentary discharge of production capacity, coal production in the PRC maintained a rapid growth in the first half of 2012. From January to June, China produced a total of 1.95 billion tonnes of raw coal, representing a year-on-year growth of 7.7% which is however 5.3 percentage points lower than the same period in last year. The increase in coal production was mainly contributed from Shanxi, Shaanxi and Inner Mongolia, which produced raw coal of 464 million tonnes, 214 million tonnes and 517 million tonnes from January to June, respectively, representing a year-on-year growth of 12.9%, 10.5% and 14.8%. In the first half of 2012, the downstream industries of thermal power, crude steel and cement production grew by 2.6%, 1.8% and 5.5% compared with the same period of last year, which were 9.9, 7.8 and 14.1 percentage points lower than that of the same period in last year.

Coal transportation was relatively relaxed during the first half of 2012, smoothly running from west to east, while the bottleneck was unapparent. During the first half of 2012, coal transportation through railways was 1.166 billion tonnes, representing a year-on-year growth of 4.5% which is 8.7 percentage points lower than that of the same period in last year. Coal outbound shipment from major ports nationwide was 310 million tonnes, representing a year-on-year decrease of 4.1%, of which, the outbound shipment in June was 45.23 million tonnes, representing a month-on-month drop of 12.2%.

Since the beginning of the second quarter, major stock indicators have stayed at record highs, including the stockpile at major northern coal ports and thermal coal inventory of power plants under direct supply contracts in the PRC. As at the end of June 2012, the total stockpile at seven northern coal ports exceeded 24.00 million tonnes; the thermal coal inventory of power plants under direct supply contracts in the PRC reached 93.00 million tonnes, which is sufficient to meet consumption for 28 days and a growth of more than 10 days on a year-on-year basis.

During the first half of 2012, the international coal market saw an oversupply due to the dismal global economy, weak coal demand and the increased supply. Accordingly, thermal coal was traded at tumbled prices. As at the end of June 2012, the spot price of 6,000 kcal thermal coal at Newcastle Port, Australia (FOB) dropped to USD85 per tonne, approximately USD30 per tonne lower as compared with that of the beginning of this year . Due to the discount of international coal price as compared to domestic price, the volume of net import to China reached 134 million tonnes in the first half of 2012, representing a year-on-year increase of 77.5%. The soaring coal import led to an oversupply of coal in coastal regions.

Prospect for the second half of 2012

Looking into the second half of 2012, as the macro control tends to go towards "stabilizing growth" from "curbing inflation", the macro economy is expected to show a sign of stabilization and rebounding. However, as the external uncertainties still exist, there should be no substantial increase in domestic demand in a short term and the economic growth is not expected to exceed the expectation. The forecasted recovery of real economy is expected to stabilise and pull up coal demand from major coal consumers in power, steel, building materials and chemical industries in the second half of 2012.

Due to the coal price plunges, certain loss-making coal producers will have to cut back or suspend production and therefore give up their marginal output. Coal companies featuring low production costs and high coal quality, in order to take over such part of market share, should maintain a production growth.

Given the high stocks at thermal power plants and ports in the second quarter, in the third quarter, coal demand will be satisfied mainly by the stockpile with an absence of a booming coal market in the peak season. The elimination of small coal mines that are unable to meet the standard prescribed by the country and the standardization of the procedure for safe production for coal industry will reduce the growth rate of coal production, which is beneficial for the restoration of the supply and demand balance and the increase in coal price. In the second half of 2012, the actual coal production in the PRC is expected to grow at a slower pace given that there is no significant improvement of the demand, with the supply and demand in the coal market changed from loose to balance during the fourth quarter. Meanwhile, due to weak demand and still high stockpile at downstream, it should be improbable for railway capacity to run tight in the second half of 2012.

As international coal prices are staying at historical lows, certain international coal suppliers with higher operating costs should be unwilling to trade below cost. Coupled with the increasing costs of Australian coal producers and the newly introduced carbon tax, further downside of international coal prices should be limited and their competitive edge against domestic coal prices will decline dramatically. It is expected that in the second half of 2012, the volume of imported coal is to drop as compared with the first half of 2012 as a result of the diminishing price spread.

For the second half of 2012, especially from the beginning of the fourth quarter, industrial power consumption is to rise with a turnaround in economy. At the same time, due to seasonal factors, power consumption by residents and the tertiary industry will grow, while the drop in hydropower output will also lead to an expansion in load of thermal power. It is expected that in the second half of 2012, coal economy will witness a stable operation.

2. *Thermal coal market in Asia Pacific region*

Review of the first half of 2012

The first half of 2012 saw an oversupply in international coal market due to the sluggish developed economies amid the depression worldwide, weak demand and the increased supply. The contract and market prices of thermal coal both plunged.

The coal market supply in Asia Pacific region faced a shift from the western to the eastern counties in the first half of 2012: non-traditional suppliers expanded coal sales in the Asia Pacific market in response to the economic recession and weak energy demand in traditional coal consuming regions in Europe and America. From January to June 2012, the export from the United States increased by 25% on year-on-year basis to 60.10 million tonnes, of which 4.66 million tonnes were exported to Asia, a year-on-year growth of 88%. From January to June this year, the export from Russia reached 60.00 million tonnes, representing a year-on-year growth of 17.6%. From January to June, Australia exported 147 million tonnes of coal, up 16% year-on-year, and Indonesia exported 164 million tonnes of thermal coal, up by 16% on year-on-year basis.

In contrast with the surging coal import to China, other coal consuming countries including Japan, Korea and India posted modest growth in coal import during the first half of 2012. From January to June, Japan imported 88.80 million tonnes of coal, a year-on-year growth of only 2.9%. From January to June, Korea imported 62.00 million tonnes of coal, a year-on-year decrease of 0.9%. During the first six months of this year, India imported 42.07 million tonnes of thermal coal, representing a year-on-year decrease of 5.5%.

Prospect for the second half of 2012

Looking into the second half of 2012, uncertainties will still exist in the global economy. A further global recession is likely to occur, mainly due to the negatives including the aggravating European debt crisis. The demand in international coal market is expected to grow slowly.

On supply side, the United States will continue to expand coal export in the second half of 2012 in the wake of its decreasing domestic coal consumption. It is estimated that for the whole year of 2012, the export from the United States will exceed the level of last year at 100 million tonnes. On the other hand, coal supply in Asia Pacific region is expected to become sufficient in the second half of 2012, mainly due to low international coal prices and the leaving of certain small coal mines and traders with higher operating costs. China and India will remain as the major importers of coal in the region, albeit with less import compared to the first half of 2012.

In the second half of 2012, international thermal coal prices are expected to remain stable as a result of the slow global recovery, coal prices closer to cost bottom lines of certain coal producers and the competitions of domestic and overseas players.

III. Market environment of the power industry

Review of the first half of 2012

Power consumption in China in the first half of 2012 was 2,375.5 billion kwh, representing a year-on-year growth of 5.5% and 6.7 percentage points lower than that of the same period in last year. It was mainly due to the declined output of the energy intensive heavy industries and the energy conservation and emission reduction campaign. From January to June 2012, power consumption growths were generally slowing down on a month-on-month basis.

The weak growth in industrial power consumption, which accounted for over 70% of power consumption in China, has resulted in the significantly slower growth of total power demand. In the first half of 2012, industrial power consumption only increased by 3.65% year-on-year, which was 8.1 percentage points lower than that of the same period in last year.

Power consumptions of residents and the tertiary industry in the first half of 2012 both recorded a growth of over 12%, and thus drove up the power consumption to some extent. However, the power consumption in June posted a slower momentum as a whole, mainly due to the slower growth of residential power consumption as a result of abundant rainfall and lower temperature in certain southern regions since early June compared to previous years, as well as the higher comparative base in last year.

Due to the slower power consumption growth, power generation from large-scale power plants in the PRC for the first half of 2012 was 2,295 billion kwh, representing a year-on-year growth of 3.7%. The power generation in June was 393.35 billion kwh representing a slight decrease year-on-year.

As a result of the plentiful rainfall, hydropower generation posted a year-on-year growth of 9.9% in the first half of 2012, and coal-fired power generation recorded a year-on-year drop of 2.9% in the second quarter, together with the widening drops month-on-month. In the first half of 2012, the utilization hours of coal-fired equipment were 2,489 hours, representing a year-on-year decrease of 112 hours.

From January to June, new coal-fired installed capacity in the PRC was 15,870 MW, a sharp decline of 31.9% year-on-year. From January to June, RMB40.1 billion was invested in coal-fired power infrastructure, representing a year-on-year decrease of 16.7%.

During the first half of 2012, the power shortage in the PRC was basically mitigated due to the weakened demand. Since early March, there was no administrative restriction on power consumption or power shortage across the country. Most thermal power producers faced high coal inventory and were less interested for coal intakes.

Prospect for the second half of 2012

With the "stabilizing growth" policies to be launched in the second half of 2012, it is estimated that the power consumption in China, especially industrial power consumption, will gradually pick up its momentum, and may be stabilized and rebounded within the year.

Looking ahead, a significant growth is estimated for coal-fired power generation, mainly due to the much stronger willingness in power generation of thermal power producers than previous years as driven by low coal prices, together with the stabilizing economy and diminishing hydropower output due to seasonal factors from the fourth quarter.

In the second half of 2012, the national power supply and demand is expected to maintain an overall balance, where power supply may run tight in some regions during the peak season, yet with much less pressure to sustain the power balance as compared with last year.

IV. SIGNIFICANT MATTERS

Purchase, sale or redemption of securities of the Company

For the six months ended 30 June 2012, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's securities (as provided under the Hong Kong Listing Rules).

Corporate governance

The Company has established a system of corporate governance in accordance with Appendix 14 of the Hong Kong Listing Rules. Save for the provisions on liability insurance for directors, the Company has been in full compliance with the provisions of Appendix 14 of the Hong Kong Listing Rules and most of the recommended best practices as specified therein during the six months ended 30 June 2012. With effect from August 2012, the Company has maintained appropriate liability insurance for its directors, supervisors and senior management.

Securities transactions of directors

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

The Company has made specific enquiries, and all directors have confirmed that they had fully complied with the Model Code for the six months ended 30 June 2012.

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

Other than directors' own service contracts, none of directors or supervisors had any actual personal interest, directly or indirectly, in any material contracts made by the Company or any of its subsidiaries in the first half of 2012.

Audit committee

The Company has appointed independent non-executive directors and established an Audit Committee in accordance with the Hong Kong Listing Rules. As at the end of the reporting period, the Audit Committee of the board comprises Mr. Gong Huazhang (chairman of the Audit Committee of the board, with professional qualifications and experience in accounting and other fields of financial management), Mr. Guo Peizhang and Mr. Chen Hongsheng. On 15 August 2012, the Audit Committee reviewed the Company's interim financial report for the six months ended 30 June 2012 and approved submission of the interim financial report to the board for approval.

Subsequent event

After 30 June 2012, there is no occurrence of any important event that may affect the Group.

V. DEFINITIONS

In this announcement, the following expressions shall have the meanings as set out below unless the context requires otherwise:

Shenhua Group Corporation	Shenhua Group Corporation Limited
Shenhua Group	Shenhua Group Corporation and its controlling subsidiaries
China Shenhua or the Company	China Shenhua Energy Company Limited
The Group	China Shenhua and its subsidiaries
branches and subsidiaries	Branches and subsidiaries of the Company, unless otherwise specified in the context
Shenbao Energy Company	Shenhua Baorixile Energy Co., Ltd.
Taicang Power	Guohua Taicang Power Generation Co., Ltd.
Bashu Power	Shenhua Bashu Power Co., Ltd., formerly "Sichuan Bashu Electric Power Development Co., Ltd."
Shenwan Energy Company	Shenwan Energy Company Limited
Shenhua Zhonghai Shipping Company	Shenhua Zhonghai Shipping Co., Ltd.
Coal Liquefaction and Chemical Company	China Shenhua Coal Liquefaction and Chemical Co., Ltd
Overseas Investment Company	China Shenhua Overseas Development & Investment Co., Ltd.

Shenhua Finance Company	Shenhua Finance Co., Ltd.
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

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

Beijing, 24 August 2012

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