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 2013

FINANCIAL HIGHLIGHTS

- Revenue of the Group in the first half of 2013 were RMB127,226 million, representing an increase of RMB5,758 million or 4.7% over the same period of 2012.
- Profit for the period attributable to equity holders of the Company was RMB24,867 million, representing an decrease of RMB1,874 million or 7.0% over the same period of 2012.
- Earnings per share for the period was RMB1.250.
- EBITDA[1] in the first half of 2013 was RMB45,797 million, representing an decrease of RMB451 million or 1.0% over the same period of 2012.

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 2013 and to report our performance for the period.

Note 1: EBITDA is defined as profit for the current period plus finance costs, income tax and depreciation and amortisation, and excluding interest income, investment income and share of results of associates.

I. INTERIM FINANCIAL INFORMATION

Financial information extracted from the unaudited condensed consolidated financial statements for the six months ended 30 June 2013 prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting":

Condensed consolidated statement of profit or loss and other comprehensive income
for the six months ended 30 June 2013

		Six months ended 30 June	
	NOTES	**2013** *RMB million* **(Unaudited)**	2012 *RMB million* (Unaudited) (Restated)
Revenue	2	**127,226**	121,468
Cost of sales	3	**(86,030)**	(80,520)
Gross profit		**41,196**	40,948
Selling, general and administrative expenses		**(4,156)**	(3,724)
Other gains and losses		**(188)**	27
Other income		**180**	286
Other expenses		**(122)**	(197)
Interest income		**329**	444
Finance costs		**(1,176)**	(1,728)
Share of results of associates		**265**	174
Profit before income tax		**36,328**	36,230
Income tax	4	**(6,670)**	(5,275)
Profit for the period		**29,658**	30,955
Other comprehensive expense for the period, net of tax, that may be subsequently reclassified to profit or loss:			
Exchange differences		**(526)**	(18)
Total comprehensive income for the period		**29,132**	30,937
Profit for the period attributable to:			
Equity holders of the Company		**24,867**	26,741
Non-controlling interests		**4,791**	4,214
		29,658	30,955
Total comprehensive income for the period attributable to:			
Equity holders of the Company		**24,340**	26,729
Non-controlling interests		**4,792**	4,208
		29,132	30,937
Earnings per share (RMB)	6		
– Basic		**1.250**	1.344

Condensed consolidated statement of financial position
at 30 June 2013

	At 30 June 2013 *RMB million* (Unaudited)	At 31 December 2012 *RMB million* (Audited) (Restated)
Non-current assets		
Property, plant and equipment	**234,830**	236,048
Construction in progress	**69,055**	61,142
Exploration and evaluation assets	**2,278**	2,722
Intangible assets	**302**	291
Interest in associates	**4,837**	4,689
Available-for-sale investments	**960**	960
Other non-current assets	**31,942**	25,382
Lease prepayments	**13,607**	13,667
Deferred tax assets	**1,404**	1,106
Total non-current assets	**359,215**	346,007
Current assets		
Inventories	**18,646**	15,171
Accounts and bills receivable	**26,618**	20,028
Prepaid expenses and other current assets	**22,008**	14,480
Restricted bank deposits	**6,361**	6,082
Time deposits with original maturity over three months	**2,756**	3,972
Cash and cash equivalents	**40,701**	51,627
Total current assets	**117,090**	111,360
Current liabilities		
Borrowings	**19,767**	28,093
Accounts and bills payable	**30,319**	31,072
Accrued expenses and other payables	**60,075**	41,423
Current portion of long-term payables	**238**	283
Income tax payable	**2,671**	4,686
Total current liabilities	**113,070**	105,557
Net current assets	**4,020**	5,803
Total assets less current liabilities	**363,235**	351,810
Non-current liabilities		
Borrowings	**40,754**	39,624
Long-term payables	**2,551**	2,558
Accrued reclamation obligations	**1,977**	1,921
Deferred tax liabilities	**1,107**	1,150
Total non-current liabilities	**46,389**	45,253
Net assets	**316,846**	306,557
Equity		
Share capital	**19,890**	19,890
Reserves	**241,797**	236,699
Equity attributable to equity holders of the Company	**261,687**	256,589
Non-controlling interests	**55,159**	49,968
Total equity	**316,846**	306,557

Condensed consolidated statement of changes in equity
for the six months ended 30 June 2013

	Attributable to equity holders 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	19,890	85,001	3,612	660	16,013	(4,457)	107,480	228,199	39,915	268,114
Profit for the period	–	–	–	–	–	–	26,741	26,741	4,214	30,955
Other comprehensive expense for the period	–	–	–	(12)	–	–	–	(12)	(6)	(18)
Total comprehensive income for the period	–	–	–	(12)	–	–	26,741	26,729	4,208	30,937
Dividend declared	–	–	–	–	–	–	(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 acquisitions from Shenhua Group in 2012 (“2012 Acquisitions”)	–	–	–	–	–	150	–	150	–	150
Distributions to then shareholders in relation to the 2012 Acquisitions	–	–	–	–	–	–	(81)	(81)	(81)	(162)
Capital contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	3,073	3,073
Distributions to non-controlling shareholders	–	–	–	–	–	–	–	–	(2,169)	(2,169)
Consideration for the 2012 Acquisitions	–	–	–	–	–	(2,710)	–	(2,710)	–	(2,710)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	1,465	1,465
At 30 June 2012 (Unaudited)	19,890	85,001	3,612	648	17,279	(7,017)	114,973	234,386	46,411	280,797

	Attributable to equity holders 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 2013	19,890	85,001	3,612	734	16,538	(7,017)	137,831	256,589	49,968	306,557
Profit for the period	-	-	-	-	-	-	24,867	24,867	4,791	29,658
Other comprehensive expense for the period	-	-	-	(527)	-	-	-	(527)	1	(526)
Total comprehensive income for the period	-	-	-	(527)	-	-	24,867	24,340	4,792	29,132
Dividend declared	-	-	-	-	-	-	(19,094)	(19,094)	-	(19,094)
Appropriation of maintenance and production funds	-	-	-	-	2,360	-	(2,360)	-	-	-
Utilisation of maintenance and production funds	-	-	-	-	(1,232)	-	1,232	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	2	1	-	3	(18)	(15)
Capital contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	910	910
Distributions to non-controlling shareholders	-	-	-	-	-	-	-	-	(493)	(493)
Others	-	-	-	-	-	(151)	-	(151)	-	(151)
At 30 June 2013 (Unaudited)	19,890	85,001	3,612	207	17,668	(7,167)	142,476	261,687	55,159	316,846

Note:

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

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

Condensed consolidated statement of cash flows

for the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
		(Restated)
OPERATING ACTIVITIES		
Profit before income tax	**36,328**	36,230
Adjustments for:		
Depreciation and amortisation	**8,887**	8,909
Loss (gain) on disposal of property, plant and equipment	**226**	(26)
Impairment of loans receivable	**109**	–
Reversal of impairment of accounts and other receivables	**(11)**	–
Write-down of inventories	**16**	–
Gain on disposal of an associate	**(152)**	–
Interest income	**(329)**	(444)
Share of results of associates	**(265)**	(174)
Interest expense	**1,656**	1,792
Fair value loss (gain) on derivative financial instruments and trading debt securities	**136**	(1)
Unrealised foreign exchange gain	**(616)**	(144)
Operating cash flows before movements in working capital	**45,985**	46,142
Increase in inventories	**(3,491)**	(4,339)
Increase in accounts and bills receivable	**(6,587)**	(4,295)
Increase in prepaid expenses and other assets	**(8,410)**	(2,286)
(Decrease) increase in accounts and bills payable	**(753)**	1,184
Increase in accrued expenses and other payables	**701**	8,554
Cash generated from operations	**27,445**	44,960
Income taxes paid	**(9,527)**	(9,580)
NET CASH FROM OPERATING ACTIVITIES	**17,918**	35,380
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, intangible assets, exploration and evaluation assets, and additions to construction in progress	**(15,751)**	(15,800)
Deposits paid for acquisition of property, plant and equipment	**(5,545)**	–
Increase in lease prepayments	**(116)**	(267)
Proceeds from disposal of property, plant and equipment, intangible assets and lease prepayments	**44**	90
Payment for 2012 Acquisitions and acquisitions from Shenhua Group in 2011	**–**	(4,324)
Payment for acquisition of subsidiaries in prior years	**–**	(414)
Proceeds from disposal of an associate	**229**	–
Investments in associates	**(185)**	(298)
Purchase of available-for-sale investments	**–**	(4)
Dividend received from associates	**214**	106
Interest received	**292**	405
Interest received on trading debt securities	**37**	39
Proceeds from trading debt securities	**–**	73
Net increase in restricted bank deposits	**(279)**	(1,522)
Increase in time deposits with original maturity over three months	**(565)**	(505)
Withdrawal of time deposits with original maturity over three months	**1,781**	3,427
NET CASH USED IN INVESTING ACTIVITIES	**(19,844)**	(18,994)

	Six months ended 30 June	
	2013	2012
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
		(Restated)
FINANCING ACTIVITIES		
Interest paid	**(1,899)**	(1,902)
Proceeds from borrowings	**14,625**	4,583
Repayments of borrowings	**(21,191)**	(13,595)
Contributions from non-controlling shareholders	**910**	3,073
Distributions to non-controlling shareholders	**(1,383)**	(3,046)
Dividend paid to equity holders of the Company	**–**	(15,149)
Contributions from then shareholders in relation to the 2012 Acquisitions	**–**	150
Distributions to then shareholders in relation to the 2012 Acquisitions	**–**	(162)
Acquisition of additional interest in a subsidiary	**(15)**	–
NET CASH USED IN FINANCING ACTIVITIES	**(8,953)**	(26,048)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(10,879)**	(9,662)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**51,627**	61,652
Effect of foreign exchange rate changes	**(47)**	(2)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**40,701**	51,988

Notes to the condensed consolidated financial statements
for the six months ended 30 June 2013

1. Application of new and revised International Financial Reporting Standards ("IFRSs")

In the current interim period, the Group has applied, for the first time, the following new and revised IFRSs issued by International Accounting Standards Board:

IFRS 10 *Consolidated Financial Statements;*

IFRS 11 *Joint Arrangements;*

IFRS 12 *Disclosure of Interests in Other Entities;*

Amendments to IFRS 10, IFRS 11 and IFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance;*

IFRS 13 *Fair Value Measurement;*

IAS 19 (as revised in 2011) *Employee Benefits;*

IAS 27 (as revised in 2011) *Separate Financial Statements;*

IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures;*

Amendment to IAS 1 *Presentation of Items of Other Comprehensive Income;*

Amendments to IFRSs *Annual Improvements to IFRSs 2009-2011 Cycle;*

Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities; and*

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine.*

The application of the above new and revised IFRSs in the current interim period has had no material impact on the condensed consolidated financial statements for the current or prior periods.

2. Revenue

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. Revenue represents the aggregate of the invoiced value of goods sold and services provided.

	Six months ended 30 June	
	2013	2012
	RMB million	RMB million
	(Unaudited)	(Unaudited)
Coal revenue	**83,528**	81,151
Power revenue	**36,463**	35,412
Transportation revenue	**2,399**	2,710
	122,390	119,273
Other revenue	**4,836**	2,195
	127,226	121,468

3. COST OF SALES

	Six months ended 30 June	
	2013	2012
	RMB million	RMB million
	(Unaudited)	(Unaudited)
		(Restated)
Coal purchased	**36,023**	33,829
Materials, fuel and power	**9,470**	9,676
Personnel expenses	**5,329**	5,081
Depreciation and amortisation	**8,046**	8,496
Repairs and maintenance	**3,829**	3,391
Transportation charges	**8,181**	8,287
Taxes and surcharges	**2,383**	2,429
Others	**12,769**	9,331
	86,030	80,520

4. Income tax

	Six months ended 30 June	
	2013	2012
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Provision for PRC income tax	**7,011**	5,641
Deferred tax	**(341)**	(366)
	6,670	5,275

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% (six months ended 30 June 2012: 25%) except for certain group entities which are entitled to a concessionary tax rate as disclosed below.

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 are entitled to a preferential tax rate of 15% from 2011 to 2020.

The applicable tax rates of the Group's overseas subsidiaries are as follows:

	Six months ended 30 June	
	2013	2012
	%	%
Australia	**30.0**	30.0
Indonesia	**25.0**	25.0
Russia	**20.0**	20.0
Hong Kong	**16.5**	16.5

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 final dividend of RMB0.96 per share totalling RMB19,094 million in respect of the year ended 31 December 2012 was approved at the annual general meeting held on 21 June 2013 and was subsequently paid in July and August 2013.

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

6. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2013 was based on the profit attributable to equity holders of the Company of RMB24,867 million (six months ended 30 June 2012: RMB26,741 million) and the number of shares in issue during the six months ended 30 June 2013 of 19,890 million (six months ended 30 June 2012: 19,890 million) shares.

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

7. Restatement of comparative figures

The presentation of certain financial statements line items has been changed for better understanding. Accordingly, the comparative amounts have been reclassified to conform with the current period's presentation. These reclassifications have no impact to the Group's results of operation, and are mainly as follows:

(i) Business taxes and surcharges are reclassified from selling, general and administrative expenses to cost of sales.

(ii) Exploration rights and long-term deferred expenses are reclassified from intangible assets to exploration and evaluation assets and other non-current assets, respectively.

(iii) Interest received and interest paid are reclassified from operating activities to investing and financing activities, respectively.

8. Review of condensed consolidated financial statements

The condensed consolidated financial statements for the six months ended 30 June 2013 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 2013 interim report of China Shenhua and to report to all shareholders on the Company's performance for the period.

In the first half of the year, under the proactive fiscal policy and prudent monetary policy implemented by the Central Government, the macro-economy achieved steady development with a year-on-year GDP growth of 7.6%. Affected by the global structural shift in the energy sector and the ongoing increase in coal import volume, the domestic market was faced with oversupply of coal amid exacerbated market competition, persisting decline in coal price and consistently high-level inventory. In the face of drastic changes in the market, China Shenhua responded actively by fully leveraging on its integrated operations, continuing to optimize its business structure, and prioritizing in coal sales, production safety, as well as in cost reduction and efficiency enhancement. As a result, China Shenhua achieved a slight growth in its performance against headwinds despite the huge loss suffered across the coal industry.

On 30 June, the market capitalisation of China Shenhua totalled US$53.9 billion, ranking top amongst global listed coal companies and the fifth amongst listed integrated mining companies worldwide.

Operation climbed despite cool market and operating results remained stable

- In the first half of the year, the production volume of commercial coal reached 158.3 million tonnes and sales volume reached 242.7 million tonnes, representing a year-on-year growth of 1.6% and 9.3%, respectively.

- The total power output dispatch reached 98.31 billion kwh, representing a year-on-year increase of 2.8%, and the total installed capacity of power generators reached 41,798 MW.

- The transportation turnover of self-owned railway was 101.7 billion tonnes km, representing a year-on-year increase of 16.9%, and the seaborne coal sales volume reached 111.0 million tonnes, representing a year-on-year increase of 13.7%.

- Revenue amounted to RMB127.23 billion, representing a year-on-year increase of 4.7%.

- Profit before income tax reached RMB36.33 billion, representing a year-on-year increase of 0.3%.

- Profit for the period attributable to equity holders of the Company was RMB24.87 billion, representing a year-on-year decrease of 7.0%.

- Basic earnings per share were RMB1.250, representing a year-on-year decrease of 7.0%, or representing a year-on-year decrease of 1.8% when deducting the effects of implementation of preferential income tax policies for developing the western region for the same period of last year and the reduction in income tax expenses[1].

- Net cash from operating activities was RMB17.92 billion, representing a year-on-year decrease of 49.4%.

Outstanding progress achieved with business structure optimization

Since 2009, the Company has been optimizing its business structure and layout of its coal, power and transportation segments and effectively forged its ability in value creation and risk resistance in the coal market.

Based on steady growth achieved in its coal business, China Shenhua grasped the favourable opportunities to accelerate the development of its power business and press on with the strategic expansion and capacity enhancement of its transportation system. From 2009 to 2012, the capital expenditure under the International Financial Reporting Standards of China Shenhua amounted to RMB146.89 billion, of which the percentage of power and transportation segments increased to 65.2%. The self-initiated adjustment to capital expenditure facilitated the enhancement in China Shenhua's business structure.

As at 30 June 2013, the total installed capacity of power generators of the power segment reached 41,798 MW, representing an increase of 122.4% from the beginning of 2009. In the first half of 2013, the turnover of self-owned railway transportation was up by 49.8% as compared with that of the first half of 2009, seaborne coal in self-owned ports increased by 52.1% as compared with that of the first half of 2009, and the shipment turnover of the shipping business, which started in 2010, reached 43.3 billion tonnes per nm in the first half of 2013.

Calculated based on the profit from operations of each segment before elimination on consolidation according to the International Financial Reporting Standards, the proportion of each of the coal, power and transportation business was adjusted from 66%: 15%: 19% in 2009 to 57%: 22%: 21% in the first half of 2013[2].

Integration synergy fully actualized by active response to market

In face of the drastic changes in the market, adhering to the principle of profit maximisation, the Company leveraged on its integrated model of coal, power, railways, ports and shipping, and adopted effective measures in a timely manner, and thus achieved satisfactory results.

1 Deducting the effects of implementation of preferential income tax policies, the basic earnings per share of the Group for the first half of 2013 decreased by 1.8% year-on-year. In the first half of 2012, certain subsidiaries (branches) of the Group in Shaanxi and Inner Mongolia obtained the approval to enjoy the preferential income tax policies for developing the western region with effect from the beginning of 2011. The Group adjusted the carrying amounts of income tax payable and deferred tax assets and liabilities for the previous year in the first half of 2012, resulting in reduction in income tax expenses for the first half of 2012. Without considering such effect, the basic earnings per share of the Group for the first half of 2012 was RMB1.273.

2 Calculated based on the profit from operations of each segment before elimination on consolidation according to the Accounting Standards for Business Enterprises, the proportion of each of the coal, power and transportation segments was 55%:23%:22% in the first half of 2013.

The coal segment properly adjusted the production portfolio by boosting the coal output in Shendong and Zhunge'er mines with high gross profit margin, leading to an increase of 6.4 million tonnes of output in the two mines year-on-year. At the same time, the coal output in Shengli and Shenbao mines with low gross profit margin was reduced, resulting in a total decline of 5.5 million tonnes of output in the two mines year-on-year. The segment also intensified efforts in coal preparation and increased the coal selection ratio, so as to further improve coal quality. In the first half of the year, the output of commercial coal grew steadily and fulfilled the target for the first half 2013.

Taking a market-oriented approach and pegged to the Bohai Bay Thermal Coal Price Index, the coal segment prioritized the sale of seaborne coal and optimized its product mix. The segment also appropriately adjusted external coal sources, established an online coal trading platform, and further strengthened the sales efforts in the southern areas along the Beijing-Guangzhou Railway, Beijing-Kowloon Railway and Beijing-Shanghai Railway, which extended its market radius and consolidated its market share. In the first half of the year, the Company's sales of commercial coal amounted to 242.7 million tonnes, representing a year-on-year growth of 9.3% despite the cool market.

The power segment strengthened the operational management of generators to strictly prevent abnormal breakdown and raise efficiency. Under the sales strategy of each kwh accounting, the segment actively sought additional power beyond the power generation plan, with average utilization hours of coal-fired generators reaching 2,560 hours, surpassing the national average utilization hours of 2,412 hours by 148 hours over the same period; the segment also brought the effect of "power pool" into full play, further raising the consumption of Shenhua coal to 86.0% of the total consumption of coal. In the first half of the year, the power segment became a critical "economic growth pole" of the Group's profit.

The transportation segment enhanced the coordination of each division along the railways, increased the number of trains with capacity of ten thousand tonnes, and stepped up the turnover efficiency of trains, as a result, the turnover of the transportation of self-owned railways including Shuohuang and Shenshuo witnessed a rapid surge. The construction of the new Bazhun and Zhunchi railways progressed as planned. The segment increased the proportion of seaborne coal in self-owned ports, with 38.0% year-on-year increase in seaborne coal volume of self-owned ports. In the first half of the year, the results of the transportation segment achieved substantial growth while the safe operation of the integrated system was guaranteed at the same time.

Safe production maintained and effective cost control achieved

In the first half of the year, the Company constantly reinforced the safety concept of "seeking zero fatality rate and aiming at zero injury rate" by strengthening responsibilities, enhancing management and pushing forward the establishment of an inherent-safety system. As a result, the Company's fatality rate per million tonnes of raw coal production was 0.0058, and thus continued to hold a leading record worldwide.

The Company strengthened cost control by breaking down, tracking and controlling the annual operating budget on a monthly basis. In the first half of the year, under the International Financial Reporting Standards, the unit cost of self-produced coal was RMB124.2/tonne, representing a year-on-year increase of 6.6%; the unit cost of total power output dispatch and the unit transportation cost of railway business saw a year-on-year decrease of 6.5% and 11.4% respectively; finance cost was RMB1,180 million, representing a year-on-year significant drop of 31.9%. The cost advantage of the Company was further consolidated.

The second half of 2013: overcoming difficulties and striving to achieve the annual targets

Given the weakening demand in the coal market and the low coal price, China Shenhua will prioritize value creation, ensure the optimization of its integrated model, expand markets, bring down cost and boost efficiency in the second half of the year, with particular emphasis on the following:

- **Strive to achieve the annual operating targets.** On the basis of stable and safe integrated operations, the Company will reasonably formulate production schedules, put great emphasis on sales, further optimize the inter-segment coordination among production, transportation and sales, impose stringent cost control, and comprehensively cut the non-production-related expenses, so as to achieve the annual operating targets.

- **Make utmost efforts in coal sales.** Putting benefit first, the Company will make relentless efforts in market exploration, push forward direct-arrival sales and electronic trading business, increase the proportion of high value-added products, enhance the innovation in sales, and constantly improve service quality.

- **Push forward production and construction in a safe and efficient manner.** The Company will continue to push forward the establishment of an inherent-safety system, reinforce the concept of safe production, thus maintaining an advanced standard of safe production. In addition, the Company will optimize the construction progress of key projects, enhance the production capability of each business segment in an orderly manner; and focus on preparation for the completion of Bazhun and Zhunchi railways, so as to provide additional capacity to consolidate the advantage of integrated operations.

Despite the drastic changes in the market, the management and all the employees of China Shenhua will respond proactively to overcome difficulties with strong determination, in a bid to achieve sustainable healthy development of China Shenhua and create greater value for all shareholders.

III. MANAGEMENT DISCUSSION AND ANALYSIS

Discussion and Analysis on Operations during the Reporting Period

Summary of operations

In the first half of 2013, against the backdrop of a sluggish marco-economy and extending loss suffered across the coal industry, the management of China Shenhua responded proactively by taking full advantage of its integrated operations to further optimize its business structure and strengthen its internal management to improve effectiveness, to mitigate the headwinds arising from changes in the operation environment, and thus achieved growth in both business and results despite adverse market conditions.

In the first half of the year, the Company's commercial coal production volume reached 158.3 million tonnes (first half of 2012: 155.8 million tonnes), representing a year-on-year increase of 1.6% and accomplishing 50.3% of the annual target. Coal sales volume reached 242.7 million tonnes (first half of 2012: 222.1 million tonnes), representing a year-on-year increase of 9.3% and accomplishing 52.2% of the annual target. The Company's total power output dispatch was 98.31 billion kwh (first half of 2012: 95.66 billion kwh), representing a year-on-year increase of 2.8% and accomplishing 48.0% of the annual target. The transportation turnover of self-owned railway reached 101.7 billion tonne km (first half of 2012: 87.0 billion tonne km), representing a year-on-year increase of 16.9%; and shipment turnover reached 43.3 million tonnes (first half of 2012: 47.4 million tonnes), representing a year-on-year decrease of 8.6%.

In accordance with the International Financial Reporting Standards, the Group's revenue for the first half of 2013 was RMB127,226 million (first half of 2012: RMB121,468 million), representing a year-on-year increase of 4.7%. The Group's profit before income tax was RMB36,328 million (first half of 2012: RMB36,230 million), representing a year-on-year increase of 0.3%. Profit for the period attributable to equity holders of the Company was RMB24,867 million (first half of 2012: RMB26,741 million), representing a year-on-year decrease of 7.0%. Basic earnings per share[1] were RMB1.250 (first half of 2012: RMB1.344 per share), representing a year-on-year decrease of 7.0%, or representing a year-on-year decrease of 1.8% when deducting the effects of implementation of preferential income tax policies for developing the western region for the same period of last year and the reduction in income tax expenses.

As at 30 June 2013, equity per share attributable to equity holders of the Group was RMB13.16, representing an increase of 2.0% from RMB12.90 as at 31 December 2012. As at 30 June 2013, the Group's return on total assets[2] was 6.23%. Return on net assets[3] as at the end of the period was 9.50% (first half of 2012: 10.42%), representing a year-on-year decrease of 0.92 percentage point. EBITDA[4] was RMB45,797 million (first half of 2012: RMB46,248 million), representing a year-on-year decrease of 1.0%. As at 30 June 2013, the Group's total liabilities to total assets ratio (total liabilities/total asset) was 33.5%, representing an increase of 0.5 percentage point from 33.0% as at 31 December 2012. Total debt to equity ratio[5] was 16.2%, representing a decrease of 2.0 percentage points as compared to 18.2% as at 31 December 2012.

1 Basic earnings per share are calculated on the basis of profit for the period attributable to equity holders of the Company and the number of shares in issue during the period.

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

3 Return on net assets is calculated on the basis of the profit for the period attributable to equity holders of the Company and the equity attributable to equity holders of the Company.

4 EBITDA is a method for the management to assess the performance of the Company. It is defined as profit for the current period plus finance costs, income tax and depreciation and amortisation, and excluding interest income and share of results of associates. The EBITDA presented herein by the Company is used as extra reference for investors with regard to business performance, as the 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 Accounting Standards for Business Enterprises. It should not be taken 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].

Review on Consolidated Operating Results

1. Consolidated operating results

(1) Items of condensed consolidated statement of profit or loss

No.	Item	First half of 2013	First half of 2012 (Restated)	Percentage change	Main reasons for changes
		RMB million	*RMB million*	*%*	
1	Revenue	**127,226**	121,468	4.7	Increase in coal sales volume, power output dispatch, as well as railway transportation volume.
2	Of which: Domestic market	**123,853**	119,591	3.6	
3	Other Asia Pacific markets	**3,373**	1,877	79.7	Increase in re-export volume in Asia Pacific market due to expansion of various selling methods by the Company
4	Cost of sales	**(86,030)**	(80,520)	6.8	Higher costs due to the increase in self-produced coal output, volume of purchased coal, trading coal volume and railway transportation volume
5	Selling, general and administrative expenses	**(4,156)**	(3,724)	11.6	Increase in administrative organizations, mergers and acquisitions and wages arising from expansion of business scale
6	Other gains and losses	**(188)**	27	(796.3)	Increased loss from disposal of property, plant and equipment
7	Other income	**180**	286	(37.1)	Decrease in refund of value added tax
8	Other expenses	**(122)**	(197)	(38.1)	Decrease in donation expenses
9	Interest Income	**329**	444	(25.9)	Decrease in average balance of bank deposits
10	Finance costs	**(1,176)**	(1,728)	(31.9)	Increase in foreign exchange gains arising from borrowings denominated in Japanese Yen
11	Share of results of associates	**265**	174	52.3	Increase in profit from investment of the Company in power-related associates
12	Income tax	**(6,670)**	(5,275)	26.4	Due to the gradual implementation of the preferential tax policies for the Grand Development of the Western Region, certain subsidiaries of the Group adjusted the income tax payable for 2011 and the corresponding carrying amounts of deferred tax assets and liabilities during the first half of 2012. The average income tax rates applicable to the Group for the first half of 2012 and 2013 were 14.6% and 18.4%, respectively

(2) Research and development expenditure

		First half of 2013	First half of 2012	Percentage change (%)
Expensed research and development expenditure in the period	RMB million	**138**	70	97.1
Capitalised research and development expenditure in the period	RMB million	**166**	153	8.5
Total research and development expenditure	RMB million	**304**	223	36.3
Percentage of total research and development expenditure to revenue	%	**0.24**	0.18	Increased by 0.06 percentage point

In the first half of 2013, the total research and development expenditure of the Group was RMB304 million, representing a year-on-year increase of 36.3%, which was mainly used to facilitate the research on improving safe production protection technique in mines, the experiment on industrialised comprehensive use of coal ash after combustion, the research on comprehensive treatment for ecological and environmental protection of mine areas, as well as the research on the complete technologies to improve heavy-haul railways and clean coal firing. The increase in research and development expenditure is in line with the Group's strategic principle of leveraging on technological advancement to secure safe and efficient production, which allows the Group to enhance its core competitiveness and its ability to maintain sustainable growth.

2. *Consolidated assets and liabilities*

(1) Items of condensed consolidated statement of financial position

		As at 30 June 2013		As at 31 December 2012 (Restated)			
No.	**Item**	**Amount**	**Percentage to total assets**	Amount	Percentage to total assets	**Percentage Change**	**Main reasons for changes**
		RMB million	**%**	RMB million	%	%	
1	Construction in progress	**69,055**	**14.5**	61,142	13.4	12.9	Increased investments in construction of new railways in Bazhun and Zhunchi, mining equipment of coal mines and expansion of power plants
2	Exploration and evaluation assets	**2,278**	**0.5**	2,722	0.6	(16.3)	Decrease in carrying amount of exploration license of Watermark Coal Project in Australia due to depreciation in Australian dollars
3	Other non-current assets	**31,942**	**6.7**	25,382	5.5	25.8	Increase in prepayments for construction works and purchases of large-scale equipment
4	Inventories	**18,646**	**3.9**	15,171	3.3	22.9	Increase in coal inventory and ancillary materials and equipment associated with coal and power operations
5	Accounts and bills receivable	**26,618**	**5.6**	20,028	4.4	32.9	Increase in receivables from coal business and bank acceptance bills
6	Prepaid expenses and other current assets	**22,008**	**4.6**	14,480	3.2	52.0	More loans granted by Finance Company
7	Cash and cash equivalents	**40,701**	**8.5**	51,627	11.3	(21.2)	Less deposits in and more loans granted by Finance Company, as well as repayments of short-term borrowings
8	Borrowings	**19,767**	**4.2**	28,093	6.1	(29.6)	Repayments of short-term borrowing during the period
9	Accrued expenses and other payables	**60,075**	**12.6**	41,423	9.1	45.0	As at the end of the reporting period, the Company had not paid the final dividend for 2012. The dividend mentioned above was paid before 2 August 2013
10	Non-controlling interests	**55,159**	**11.6**	49,968	10.9	10.4	The profits from the business of power, railway and ports in which non-controlling shareholders have a relatively high proportion of interests increased during the reporting period.

(2) Charge over assets of the Group

For the six months ended 30 June 2013, the Group has not placed any significant charges over its assets.

3. *Condensed consolidated statement of cash flows*

No	Item	First half of 2013	First half of 2012 (Restated)	Percentage change	Main reasons for changes
		RMB million	*RMB million*	%	
1	Net cash from operating activities	**17,918**	35,380	(49.4)	Less deposits in and more loans granted by Finance Company
2	Net cash used in investing activities	**(19,844)**	(18,994)	4.5	Increase in cash paid for acquisition of property, plant and equipment
3	Net cash used in financing activities	**(8,953)**	(26,048)	(65.6)	As at the end of the reporting period, the Company had not paid the final dividend for 2012. The dividend mentioned above was paid before 2 August 2013.

Review on Operating Results by Business Segments

The Company continued to strengthen the adjustment of its business structure and optimize its industrial layout in recent years, leading to a more reasonable integrated operation chain and showcasing its outstanding anti-risk capability. During the first half of 2013, the Company fully capitalised the advantages of resource sharing, in-depth cooperation, synergy and low-cost operations brought about by the integrated operations of coal, power, railways, ports and shipping to effectively hedge the risks arising from declining coal price, to facilitate the development and to achieve stable returns for shareholders despite the cool market.

In the first half of 2013, profit from operations of the coal segment of the Company before elimination on consolidation amounted to RMB21,130 million (first half of 2012: RMB24,956 million (restated)), representing a year-on-year decrease of 15.3%; profit from operations of the power segment before elimination on consolidation amounted to RMB8,298 million (first half of 2012: RMB6,390 million (restated)), representing a year-on-year growth of 29.9%; profit from operations of the railway segment before elimination on consolidation amounted to RMB6,945 million (first half of 2012: RMB5,237 million (restated)), representing a year-on-year increase of 32.6%; profit from operations of port segment before elimination on consolidation amounted to RMB752 million (first half of 2012: RMB442 million (restated)), representing a year-on-year increase of 70.1%; profit from operations of shipping segment before elimination on consolidation amounted to RMB67 million (first half of 2012: RMB291 million (restated)), representing a year-on-year decrease of 77.0%.

Since 2009, the adjustment of business structure of the Company has achieved remarkable results. The proportion of profit from operations before elimination on consolidation among coal, power and transportation businesses calculated under the International Financial Reporting Standards were adjusted from 66%: 15%: 19% for the year 2009 to 57%: 22%: 21% for the first half of 2013[1].

1 In terms of profit from operations (before elimination on consolidation under Accounting Standards for Business Enterprises) contributed by different business segments, the ratio of contribution for the first half of 2013 among the coal, power and transportation segments was 55%:23%:22%.

I. Coal Segment

1. Coal production and mining operation

Commercial coal production volume of the Company for the first half of the year reached 158.3 million tonnes, representing a year-on-year increase of 1.6%. The market competitiveness in coal product of the Company was further enhanced by reasonably adjusting product portfolio, appropriately raising the production volume of coal mines with high gross profit margin while reducing the production volume of coal mines with low gross profit margin; as well as improving the quality of coal with enhanced efforts in coal washing and selection.

Shendong Mines achieved balanced, stable and high output through refined production management. In the first half of the year, commercial coal production volume reached 97.1 million tonnes, representing a year-on-year growth of 5.7%. The increase is mainly contributed by Daliuta Mine and Bu'ertai Mine with a year-on-year increase in production volume of 20.1% and 26.9% respectively.

Zhunge'er Mines recorded commercial coal production volume of 30.7 million tonnes, representing a year-on-year increase of 4.1%. The Company made timely adjustments to product portfolio according to market demands, strengthened the management of coal quality and expedited the construction of capacity expansion for coal preparation plants, which resulted in a year-on-year increase in the thermal value of coal and profit from sales of the two open-cut mines, namely Heidaigou Mine and Ha'erwusu Mine.

Shengli Mines and Shenbao Mines reduced their production volume, in particular, the commercial coal production volume of Shengli Mines and Shenbao Mines amounted to 9.5 million tonnes and 15.8 million tonnes, representing a year-on-year decrease of 32.6% and 5.4% respectively.

The overseas coal mine projects of the Company were in stable operation. The PT.GH EMM Indonesia Project recorded commercial coal production volume of 1.0 million tonnes for the first half of the year. Shenhua Watermark Coal Project in Australia has completed the environmental assessment report available for public opinion and the optimisation and preparation work for coal mine design of the project progressed smoothly.

2. Coal sales

In the first half of 2013, competition was gradually intensified due to declining coal price. By proactively responding to market conditions, taking advantage of its integrated operations as well as stepping up its effort in coal sales, China Shenhua adopted a flexible and effective sales strategy in a timely manner, to improve its sales models, start its electronic transaction business, expand its sales channels and actively participate in international coal markets, resulting in an increase in coal sales against headwinds. In the first half of the year, the Company realised sales volume of commercial coal of 242.7 million tonnes (first half of 2012: 222.1 million tonnes), representing a year-on-year increase of 9.3% and accomplishing 52.2% of the annual target.

(1) By sales types

		First half of 2013			First half of 2012			**Change**	
		Sales volume	**Proportion to total sales**	**Sales price**	Sales volume	Proportion to total sales	Sales price	**Change in sales volume**	**Change in sales price**
		million tonnes	*%*	***RMB/tonne***	*million tonnes*	*%*	*RMB/tonne*	*%*	*%*
I.	Domestic sales	**237.6**	**97.9**	**400.6**	218.9	98.5	437.0	8.5	(8.3)
(1)	Self-produced coal and purchased coal	**202.6**	**83.5**	**385.4**	196.2	88.3	420.5	3.3	(8.3)
1.	Direct arrival	**92.9**	**38.3**	**280.4**	100.8	45.3	292.1	(7.8)	(4.0)
2.	Seaborne	**109.7**	**45.2**	**474.3**	95.4	43.0	556.3	15.0	(14.7)
(2)	Sales of domestic trading coal	**29.1**	**12.0**	**486.0**	20.4	9.2	571.0	42.6	(14.9)
(3)	Sales of imported coal	**5.9**	**2.4**	**501.5**	2.3	1.0	659.1	156.5	(23.9)
II.	Export Sales	**1.3**	**0.5**	**634.5**	2.2	1.0	775.6	(40.9)	(18.2)
III.	Overseas sales	**3.8**	**1.6**	**663.0**	1.0	0.5	223.4	280.0	196.8
1.	EMM Indonesia	**1.0**	**0.4**	**65.6**	0.9	0.4	75.0	11.1	(12.5)
2.	Re-export trade	**2.8**	**1.2**	**871.1**	0.1	0.1	1,184.1	2,700.0	(26.4)
Total sales volume/weighted average price		**242.7**	**100.0**	**406.0**	222.1	100.0	439.4	9.3	(7.6)

Implementation of market-oriented pricing policy

The Chinese government revoked the key thermal coal contract mechanism and adopted a market-oriented thermal coal pricing policy in 2013. The Company confirmed its pricing policy pegging to the Bohai Bay Thermal Coal Price Index. In the first half of the year, the Company closely monitored the market conditions and adjusted the coal sales price in a timely manner to gain a reasonable sales price by leveraging on the advantages of customer resource, transportation network and sales channels. In the first half of 2013, the weighted average coal sales price of the Company was RMB406.0/tonne (first half of 2012: RMB439.4/tonne), representing a year-on-year decrease of 7.6%.

Demand-oriented and efficient organisation of coal source

In the first half of 2013, having sales as the ultimate priority and guiding force for arranging coal production in line with the market trend in a demand-oriented manner, the Company leveraged on its transportation network to purchase from mines along the railways at reasonable price while capturing the opportunities to increase the marketable types of coal products in a bid to stabilise the market share. Self-produced coal and purchased coal for domestic sales of the Company amounted to 202.6 million tonnes in the first half of the year (first half of 2012: 196.2 million tonnes), representing a year-on-year growth of 3.3%.

Flexible organization of sales method, with efficiency as priority

In order to ensure the efficiency of coal sales, the Company strived to increase the percentage of seaborne coal sales. In the first half of 2013, the sales volume of self-produced coal and purchased coal in the Company's domestic seaborne coal sale amounted to 109.7 million tonnes (first half of 2012: 95.4 million tonnes), representing a year-on-year growth of 14.3 million tonnes, while the coal shipment transfer for domestic coal sales through domestic ports was 312.7 million tonnes. The seaborne coal sales volume of the seven northern coal ports recorded a year-on-year growth of 14.7 million tonnes, based on which the market share of China Shenhua in coastal coal markets was estimated at approximately 35.1% and the increase of the Company's seaborne coal accounted for 97.3% of the growth of seaborne coal sales volume of the seven northern coal ports.

The Company pushed forward the establishment of a logistics system along the self-owned railways and put greater efforts in promoting sales along the railways. The Company realised direct arrival sales of 92.9 million tonnes in self-produced coal and purchased coal.

Expand market share by strengthening trading cooperation

With an aim to advance steady growth in domestic trading, the Company consolidated the port trade and actively entered into trading cooperation by capitalising on market and brand strengths and innovative trading models. In the first half of 2013, the domestic trading coal sales volume of the Company amounted to 29.1 million tonnes (first half of 2012: 20.4 million tonnes), representing a year-on-year growth of 42.6%.

Innovative mode of transaction with lower transaction costs

Shenhua Coal Trading Network, the electronic coal trading platform of the Company, is officially put into full operation, providing services such as online bidding and bidding transaction. The effective coordination among the production, transportation and sales of coal enabled the Company to reduce transaction costs, thus paving a new way to capture market price, explore sales markets and improve sales efficiency. During the first half of the year, Shenhua Coal Trading Network realized 10.3 million tonnes of sales in various types of coal.

(2) By internal and external customers

	First half of 2013			First half of 2012			
	Sales volume	**Percentage to total sales volume**	**Price**	Sales volume	Percentage to total sales volume	Price	**Change in sales price**
	million tonnes	*%*	***RMB/tonne***	*million tonnes*	*%*	*RMB/tonne*	*%*
Sales to external customers	**202.8**	**83.6**	**411.8**	182.2	82.0	445.5	(7.6)
Sales to internal power segment	**39.9**	**16.4**	**376.4**	39.9	18.0	411.8	(8.6)
Total coal sales volume/weighted average sales price	**242.7**	**100.0**	**406.0**	222.1	100.0	439.4	(7.6)

In order to effectively mitigate risks from the coal market, the Company capitalised on its competitive edge in integrated coal and power operations and stabilised its coal consumption from self-owned power plants. In the first half of 2013, the Company sold 39.9 million tonnes of coal to the power segment of the Group.

The Company adopted identical pricing policy for the sales of coal to internal power segment and external customers.

3. Coal mine production safety

During the first half of 2013, the Company continued to enhance its safety concept of “seeking for zero fatality rate” and “striving for zero injury rate” through systems improvement, responsibility and management enhancement, project inspection and hidden hazards identification, so as to fully build up an advanced safety system. The fatality rate per million tonnes of raw coal production of the Company was 0.0058 for the first half of 2013, maintaining a stable level of production safety.

4. Coal Coal resources[1]

As at 30 June 2013, the Group had coal resources amounting to 24.981 billion tonnes and recoverable coal reserve amounting to 14.879 billion tonnes under the PRC Standard; the Group's marketable coal reserve amounted to 8.885 billion tonnes under the JORC Standard.

In the first half of 2013, the Company's exploration expenses amounted to approximately RMB14 million (2012: RMB134 million), which was mainly attributable to the decrease in exploration expenses relating to the Watermark Coal Project in Australia which has completed the environmental assessment report available for public opinion.

In the first half of 2013, the Company's relevant capital expenditure of mining development and exploration amounted to approximately RMB3,843 million (first half of 2012: RMB3,265 million), which was mainly attributable to the mining expenses of Shendong Mines and Zhunge'er Mines.

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

No.	Mines	Major types of coal	Calorific value range of major commercial coal products *(kal/kg)*	Sulphur content range
1	Shendong Mines	Long flame coal/non-caking coal	>5,250	0-0.6%
2	Zhunge'er Mines	Long flame coal	>4,500	0-0.6%
3	Shengli Mines	Lignite	>3,200	0-0.8%
4	Baorixile Mines	Lignite	>3,600	0-0.8%
5	Baotou Mines	Long flame coal/non-caking coal	>4,300	0-0.8%

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

1 Exploration expenses, which occurred before the conclusion of feasibility study was made, represent the expenses related to exploration and evaluation of coal resources.

5. Operating results

(1) The operating results of the coal segment of the Group before elimination on consolidation in the first half of 2013 were as follows:

		First half of 2013	First half of 2012 (Restated)	Changes (%)	Main reasons for changes
Revenue	RMB million	**104,241**	99,331	4.9	Increase in coal sales volume
Cost of sales	RMB million	**81,062**	72,521	11.8	Increasing coal production volume, higher unit costs and increasing volume of domestically-purchased coal and trading coal
Of which:					
1. Production cost of self-produced coal	RMB million	**18,789**	17,458	7.6	–
2. Cost of coal purchased from third parties	RMB million	**36,023**	33,829	6.5	–
Gross profit margin	%	**22.2**	27.0	Decreased by 4.8 percentage points	–
Profit from operations	RMB million	**21,130**	24,956	(15.3)	–
Margin of profit from operations	%	**20.3**	25.1	Decreased by 4.8 percentage points	–

(2) Unit production cost of self-produced coal

In the first half of 2013, unit production cost of self-produced coal in the coal segment was RMB124.2/tonne (first half of 2012: RMB116.5/tonne), representing a year-on-year increase of 6.6%. The main reasons affecting the unit production cost are:

1. Costs of raw materials, fuel and power were RMB23.6/tonne (first half of 2012: RMB23.5/tonne), representing a year-on-year increase of 0.4%.

2. Personnel expenses were RMB14.2/tonne (first half of 2012: RMB13.9/tonne), representing a year-on-year increase of 2.2%, which was mainly attributable to the increase in the payment base of surcharge on wages and the number of employees;

3. Repairs and maintenance expenses were RMB7.9/tonne (first half of 2012: RMB7.5/tonne), representing a year-on-year increase of 5.3%. The increase was mainly due to the increase in repairs of stripping equipment and coal-washing and selecting equipment of certain open-cut mines;

4. Depreciation and amortisation were RMB18.0/tonne (first half of 2012: RMB20.0/tonne), representing a year-on-year decrease of 10.0%, which was mainly attributable to the closer correlation between the depreciable life and estimated useful life of the fixed assets[1] as a result of the improvement in management standardisation of fixed assets of the Company and adjustments in depreciable life of certain fixed assets;

5. Cost of others were RMB60.5/tonne (first half of 2012: RMB51.6/tonne), representing a year-on-year increase of 17.2%. The increase was mainly due to the increases in mining engineering expenses, coal washing and preparation fee and land requisition and relocation compensation. Cost of others consist of the following three components: (1) expenses directly related to production, including safety-related production expenses, coal washing and preparation expenses and mining engineering expenses, etc., accounting for 57%; (2) auxiliary production expenses, accounting for 9%; (3) land requisition and surface subsidence compensation, environmental protection expenses, fees levied by local governments, etc., accounting for 34%.

(3) Cost of non self-produced coal

The non self-produced coal of the Company included coal procurement near its mines and along the railways, coal purchase through domestic trade, import and re-export trade.

In the first half of the year, costs of non self-produced coal were RMB36,023 million (first half of 2012: RMB33,829 million), representing a year-on-year increase of 6.5%. In the first half of the year, the sales volume of non self-produced coal amounted to 91.4 million tonnes (first half of 2012: 72.2 million tonnes), representing a year-on-year increase of 19.2 million tonnes or 26.6%. Proportion of non self-produced coal to total coal sales volume of the Company increased to 37.7% from 32.5% in the same period of last year.

1 Such changes will have no impact on the disclosed financial statements of the Company and, after proper evaluation, it is believed that there will be no material impact on the Group's overall business performance and financial position for the current accounting period.

II. Power segment

1. Business operations

Synergy effects resulting from the integration of the Group has been fully reflected in the power segment during the first half of 2013. In face of the weakening coal market, the Company actively boosted its power generation volume by exploring the power market, hence achieving a total power output dispatch of 98.31 billion kwh, representing a year-on-year increase of 2.8%. By fully capitalising on its "power pool", the power segment consumed 41.1 million tonnes of the Group's coal, accounting for 86.0% of 47.8 million tonnes of the thermal coal consumption of the power segment of the Group in the first half of the year, increasing by 0.6 percentage point as compared to 85.4% of the same period of last year.

In the first half of 2013, the coal-fired generators of the Company operated in high loading ratio, with power generation and power output dispatch of 104.66 billion kwh and 97.53 billion kwh respectively. The average utilisation hours of which amounted to 2,560 hours, 148 hours above the average of 2,412 hours[1] among thermal power plants in the PRC.

Leveraging on top quality construction and refined management, the Company further enhanced the competitive edge of its coal-fired generators. Four units of generators of the Group obtained the title of Reliable Golden Units for 600MW and another two units obtained the title of Reliable Golden Units for 1,000MW in the 2012 National Golden Units Assessment on Reliability of Coal-fired Generators, which was organised by the National Energy Bureau.

The new power generating projects of the Company progressed steadily. The 2×660MW power generation project in Dianta Power Plant of Shenhua Shendong Power is scheduled to put into trial operation by the end of 2013. Phase I of Shenhua Chongqing Wanzhou Port and Power Integration Project (construction of 2x1,000 MW power generating units and 10 million tonnes coal transit bases and ports) commenced construction in January 2013.

1 Source: Website of the National Energy Bureau

2. Operating results

The operating results of the power segment of the Group before elimination on consolidation in the first half of 2013 were as follows:

		First half of 2013	First half of 2012 (Restated)	**Changes (%)**	**Main reasons for changes**
Revenue	RMB million	**37,100**	36,027	3.0	Increase in power output dispatch
Cost of sales	RMB million	**27,736**	28,744	(3.5)	Decrease in cost of fuel
Gross profit margin	%	**25.2**	20.2	Increased by 5.0 percentage points	–
Profit from operations	RMB million	**8,298**	6,390	29.9	–
Margin of profit from operations	%	**22.4**	17.7	Increased by 4.7 percentage points	–

Benefiting from the decrease in fuel costs of power plants due to the declined thermal coal price, the power segment recorded a remarkable growth in operating profitability. In the first half of 2013, the unit cost of power output dispatch of the Company was RMB274.5/mwh (first half of 2012: RMB293.7/mwh), representing a year-on-year decrease of 6.5%. The average power tariff amounted to RMB365.4/mwh (first half of 2012: RMB366.2/mwh), representing a year-on-year decrease of 0.2%.

III. Railway Segment

1. Business operations

In the first half of 2013, the Company strived to increase the number of trains with capacity of ten thousand tonnes and step up efforts in putting newly-acquired trains into operation through seamless coordination among transportation, production and sales under refined management of the railway segment, thus effectively safeguarding stable operations of the integrated industrial chain and realizing growth in operational performance. The transportation turnover of self-owned railway of the Company for the first half of the year was 101.7 billion tonne km, representing a year-on-year increase of 16.9%, which accounted for 82.0% of the total turnover, an increase of 2.0 percentage points as compared to the same period of last year. Meanwhile, the Company proactively pushed ahead the operation of reverse transportation in a bid to further optimize the transportation capacity and hence to increase revenue.

In order to ensure the growth in coal transportation volume in Shendong Mines, the Company expanded the loading capacity of Baoshen Railway and rolled out additional trains with capacity of ten thousand tonnes for Shenshuo and Shuohuang Railways to enhance synergy. The Company accelerated the capacity expansion and reform construction of Shuohuang Railway and the R&D and application of heavy-haul technology to improve the transportation capacity. The newly constructed Ganquan Railway has been put into trial operation while the construction of Bazhun Railway and Zhunchi Railway are progressing as scheduled and are expected to be in operation in the second half of the year. The Company has begun to reform the transportation dispatch management system in advance by setting up a transportation dispatch office at the headquarters to prepare for the dispatch of trains under the Shenhua railway network which is expected to be completed in the second half of the year.

2. Operating results

The operating results of the railway segment of the Group before elimination on consolidation in the first half of 2013 were as follows:

		First half of 2013	First half of 2012 (Restated)	**Changes (%)**	**Main reasons for changes**
Revenue	RMB million	**14,417**	12,312	17.1	Increase in turnover of railway transportation
Cost of sales	RMB million	**6,939**	6,610	5.0	Increase in turnover of railway transportation
Gross profit margin	%	**51.9**	46.3	Increased by 5.6 percentage points	–
Profit from operations	RMB million	**6,945**	5,237	32.6	–
Margin of profit from operations	%	**48.2**	42.5	Increased by 5.7 percentage points	–

In the first half of the year, the revenue generated from the internal transportation service provided by the railway segment for the Group amounted to RMB12,860 million (first half of 2012: RMB10,821 million), representing a year-on-year increase of 18.8%, accounting for 89.2% of the operating revenue of the railway segment. Certain railway lines of the Group provided transportation services to third parties with surplus capacity, which also generated transportation revenue.

In the first half of 2013, the unit transportation cost of the railway segment was RMB0.062/tonne km (first half of 2012: RMB0.070/tonne km), representing a year-on-year decrease of 11.4%. The decrease was mainly due to the diluted fixed costs as a result of the increase in railway transportation turnover.

IV. Port Segment

1. Business operations

In the first half of 2013, the port segment further enhanced coordination with the coal sales, railway and shipping segments. Huanghua Port pushed forward two-way navigation, optimized the stock management of the coal yard and accelerated the commencement of the supervised operation of the Phase III Project, thus achieving safe and efficient operation. In the first half of the year, Huanghua Port completed seaborne coal of 61.1 million tonnes, representing a year-on-year increase of 40.5% and Tianjin Coal Dock completed seaborne coal of 15.1 million tonnes, representing a year-on-year increase of 29.1%. The seaborne coal sales through the self-owned ports of the Company accounted for 68.6% of the total seaborne coal sales, representing an increase of 12.0 percentage points as compared to 56.6% of the same period of last year.

The preliminary work of the Phase IV Project of Huanghua Port and Phase II Project of Tianjin Coal Dock progressed smoothly. Phase I Construction Project of Shenhua Coal Storage and Transportation Center in Gaolan Port Area of Zhuhai Port has been put into trial operation, and is gradually becoming the coal transportation and sales hub of the Company in southern China.

2. Operating results

The operating results of the port segment of the Group before elimination on consolidation in the first half of 2013 were as follows:

		First half of 2013	First half of 2012 (Restated)	**Changes (%)**	**Main reasons for changes**
Revenue	RMB million	**1,809**	1,536	17.8	Increase in seaborne coal volume
Cost of sales	RMB million	**900**	955	(5.8)	Year-on-year decrease in cost of depreciation and amortisation
Gross profit margin	%	**50.2**	37.8	Increased by 12.4 percentage points	–
Profit from operations	RMB million	**752**	442	70.1	–
Margin of profit from operations	%	**41.6**	28.8	Increased by 12.8 percentage points	–

In the first half of 2013, the revenue generated from the internal transportation service provided by the port segment for the Group amounted to RMB1,728 million (first half of 2012: RMB1,464 million), representing a year-on-year increase of 18.0% and accounting for 95.5% of the operating revenue of the port segment. Cost of internal transportation service provided for the Group amounted to RMB800 million.

V. *Shipping Segment*

1. Business operations

In the first half of 2013, the shipping market remained sluggish given the insufficient seaborne coal demand in domestic coal trading along the coastal markets and the oversupply of transportation capacity. Drawing upon Shenhua's strength in integrated operation, Shipping Company actively coordinated with the coal consumption units of the Group such as coal sales and power plants by flexibly arranging vessels and improving coal-loading efficiency, thus maintaining steady development. In the first half of the year, the shipping volume amounted to 43.3 million tonnes, representing a year-on-year decrease of 8.6%. The shipment turnover amounted to 43.3 billion tonne nautical miles, representing a year-on-year increase of 9.1%.

2. Operating results

The operating results of the shipping segment of the Group before elimination on consolidation in the first half of 2013 were as follows:

		First half of 2013	First half of 2012 (Restated)	**Changes** (%)	**Main reasons for changes**
Revenue	RMB million	**1,770**	2,151	(17.7)	Lower freight and shipping volume given the sluggish shipping market
Cost of sales	RMB million	**1,666**	1,808	(7.9)	Decreased intermodal transportation costs
Gross profit margin	%	**5.9**	15.9	Decreased by 10.0 percentage points	–
Profit from operations	RMB million	**67**	291	(77.0)	–
Margin of profit from operations	%	**3.8**	13.5	Decreased by 9.7 percentage points	–

In the first half of 2013, the unit transportation cost in the shipping segment was RMB0.038/tonne nautical mile (first half of 2012: RMB0.045/tonne nautical mile), representing a year-on-year decrease of 15.6%.

Changes in Core Competitiveness

The Company principally engages in the production and sales of coal, production and sales of power, railway, port and shipping transportation etc. The Company also has a team of professional management, technical staff, facilities, patents and land use rights, all of which are relevant to the businesses engaged by the Company. Currently, its core competitiveness are manifested in: (1) deepened cooperation, shared resources, synergy, integration of coal, power, railway, port and shipping into one unified operation chain with low-cost operation; (2) an abundant pool of high-quality coal resources; (3) management team and operating principle focusing on coal-based integrated energy business; (4) the industrial technology and technological innovation in coal exploitation, production safety, clean energy power and heavy-loaded transportation with a leading position in both domestic and global markets; (5) the option and pre-emptive right to acquire retained businesses and certain future businesses from Shenhua Group under the Non-Competition Agreement signed between the Company and its controlling shareholder Shenhua Group Corporation.

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

Capital expenditure plan and status of accomplishment

	Accomplishment in the first half of 2013 ***(RMB100 million)***	Plan for 2013 *(RMB100 million)*	Percentage of accomplishment (%)
Coal segment	**49.10**	176.7	27.8
Power segment	**37.84**	127.4	29.7
Transportation segment	**73.43**	350.9	20.9
Of which: Railway	**44.65**	266.8	16.7
Port	**25.03**	52.4	47.8
Shipping	**3.75**	31.7	11.8
Others	**5.60**	19.5	28.7
Total	**165.97**	674.5	24.6

The Company's capital expenditure in 2013 was mainly used in the capacity expansion project in Shendong Mines, the construction of the new Bazhun and Zhunchi railways, the Phase I project of Shenhua Coal Storage and Shipping Centre at Zhuhai Gaolan Port, construction of ships, the capacity expansion projects in the Shuohuang and Dazhun railways and construction of new generators, etc.

In the first half of 2013, the Company achieved a capital expenditure of RMB16,597 million. In the second half of the year, the Company will optimize the construction progress of projects and capitalise the production capacity from all business segments in a systematic manner.

The current plans of the Company in relation to capital expenditures in 2013 are subject to development of business plans, progress of investment projects, market conditions, outlook for future operation conditions and the obtaining of the requisite permissions and regulatory approvals. Unless required by laws, the Company shall not assume any responsibilities for updating the data of its capital expenditure plans. The Company intends to finance capital expenditures by cash generated from operating activities, short-term and long-term borrowings, part of the proceeds from the initial public offering and other debt and equity financing (if necessary).

Discussion and Analysis in relation to Future Development of the Company

Review and Prospect of Business Environment[1]

(I) Macroeconomic conditions

In the first half of 2013, the Chinese government followed the overall principle of "Making Progress While Maintaining Stability" in its work. With a focus on raising the quality and benefits of economic development, the Chinese government emphasised the deepening of reforms, accelerating structural adjustments, transformations and upgrades, and the economy maintained a stable growth. In the first half of the year, the GDP growth was 7.6% on a year-on-year basis, representing a decrease of 0.2 percentage point on a year-on-year basis, of which the first quarter and the second quarter recorded an increase of 7.7% and 7.5% respectively.

Looking into the second half of 2013, the central government will adhere to the principle of "Making Progress While Maintaining Stability", focusing on raising the quality and benefits of economic development, the continuity and stability in macroeconomic policies. It will enhance applicability and coordination, and conduct timely and appropriate advanced tuning and fine-tuning of macroeconomic policies according to changes in the economic conditions so as to remain stable, yet promising. The economy is expected to maintain the momentum of steady development. Stable macroeconomic development is conducive to demand for coal and other basic energies.

1 (1) This section is for reference 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 are 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 2013

In the first half of 2013, due to factors such as slower growth in energy demand, continued increase in imported coal, high inventory and increase in hydropower output, the coal market continued to have a surplus in supply. In the first half of 2013, domestic coal price declined at a slow pace, with an increase in the extent of single-month decline in coal price in late June. As at the end of June 2013, the Bohai Bay Thermal Coal Price Index (5,500 kcal/kg) fell to RMB603 per tonne, decreasing by approximately 5% as compared with RMB634 per tonne at the beginning of the year.

Due to the decrease in coal price, some coal mines cut back or suspended production. In the first half of 2013, the PRC produced a total of 1.79 billion tonnes of raw coal, representing a year-on-year decrease of 3.7%, of which Shanxi and Shaanxi produced raw coal of 460 million tonnes and 220 million tonnes respectively, representing a year-on-year growth of 1.0% and 4.6% respectively; while Inner Mongolia produced raw coal of 450 million tonnes, representing a year-on-year decrease of 12.3%.

In the first half of 2013, the volume of the PRC's coal import continued to increase, with net import amounting to 154 million tonnes, representing a year-on-year increase of 15%, of which 22.36 million tonnes were imported in June, representing a month-on-month decrease of 18.9% and a year-on-year decrease of 17.9%.

In the first half of 2013, growth in demand for coal continued to slow down. China's coal consumption was 1.93 billion tonnes, representing a year-on-year increase of 1.8%. The growth was 1.0 percentage point and 7.6 percentage points lower than that of 2012 and 2011 respectively. In the first half of 2013, power generation in the PRC was 2,434.2 billion kwh, representing a year-on-year growth of 4.4%, of which hydropower generation posted a year-on-year growth of 11.8%, and thermal power generation 2.6%, remaining unchanged year-on-year. The increase in the percentage of hydropower generation suppressed part of the demand for coal-fired power generation.

In the first half of 2013, there was a relative surplus in the capacity for coal transportation, substantially easing the bottleneck in coal transportation. As at the end of June, coal transportation through railways was 1.14 billion tonnes, representing a year-on-year decrease of 2.6%.

In the first half of 2013, major domestic coal inventory indicators remained at a high level. As at 30 June, the coal inventory in China was approximately 298 million tonnes, representing a year-on-year increase of 7.1%.

Prospect for the second half of 2013

Looking ahead into the second half of 2013, the central government will continue to implement its macro policies of "stabilising growth, adjusting structure, promoting reform". The economic growth in the second half of 2013 is expected to be stable and the annual GDP growth target of 7.5% could be achieved.

Due to the decrease in coal price, some coal mines with high cost, poor quality and high association with road transportation has cut back or suspended production. Coal supply in the second half of 2013 is expected to further decrease; and the possibility for a bottleneck in railway transportation capacity is low.

International coal price is currently at a low level and its relatively competitive edge against domestic coal price is gradually weakened. As there is no substantial increase in demand, the volume of imported coal in the second half of 2013 is expected to decrease when compared with that of the first half of 2013.

With the economy developing steadily, and taking into account seasonal factors of having peaks in demand to cater for needs for keeping cool in summer and keeping warm in winter, the demand for coal in the PRC is expected to maintain a slow growth in the second half of 2013.

In view of factors such as stable growth in the national economy, support from rigid production cost and diminishing competitive edge of imported coal, the demand for and supply of coal in the second half of 2013 are expected to maintain an equilibrium in general, with a possibility of regional or occasional coal surplus or deficit.

2. Thermal coal market in Asia Pacific region

Review of the first half of 2013

In the first half of 2013, the international coal market saw an oversupply due to the weak global demand for energy. As at the end of June 2013, the spot price of 6,000 kcal thermal coal at Newcastle Port, Australia (FOB) dropped to USD79 per tonne, representing a decrease of 17% when compared with that at the beginning of the year.

Europe's demand for energy decreased in the first half of 2013. Countries such as Indonesia and Australia continued to maintain their sales in the Asia Pacific region, while countries such as South Africa and Russia increased their sales in the same region. In the first half of 2013, Russia's coal export amounted to 66.7 million tonnes, representing a year-on-year increase of 11.2%. Thermal coal export of Australia was 165.2 million tonnes, representing a year-on-year increase of 11.5%.

In the first half of 2013, China and India continued to increase coal import, while Japan and South Korea maintained a relatively stable level of import. As at the end of June, Japan imported 91.9 million tonnes of coal, representing a year-on-year increase of 3.4%; South Korea imported 62.9 million tonnes of coal, representing a year-on-year increase of 1.5%; and India imported 86.2 million tonnes of coal, representing a year-on-year increase of 34.5%.

Prospect for the second half of 2013

Looking ahead into the second half of 2013, due to the slow recovery of the global economy and the gradual adjustment to the energy structure, there may be a possibility of regional or temporary oversupply of coal. The international thermal coal price is expected to remain at a low level in the second half of 2013.

On the supply side, Indonesia and Australia are expected to remain the major countries of supply in the Asia Pacific region, while countries such as the United States and South Africa will maintain growth in exports. The export levels of major production countries, including Australia, will be constrained by cost rigidity. In the second half of 2013, coal supply in the Asia Pacific region is expected to remain unchanged or have a slight increase when compared with that in the first half of 2013. As there is no obvious improvement in the global economy, sea freight will fluctuate at a low level.

On the demand side, as there is still uncertainty in the global economic growth, the overall demand for coal is not expected to have a substantial growth. China and India will remain the major countries in the Asia Pacific region with a demand for coal, and the growth in demand will depend on the magnitude of domestic economic growth and the gap between domestic coal prices and overseas coal prices.

(III) Market environment of the power industry

Review of the first half of 2013

In the first half of 2013, power consumption in China was 2,496.1 billion kwh, representing a year-on-year growth of 5.1% and 0.4 percentage point lower than that of the same period of last year; of which power consumption of the secondary industry was 1,841.9 billion kwh, representing a growth of 4.9%, slightly higher on a year-on-year basis, power consumption of the tertiary industry was 292.5 billion kwh, representing a growth of 9.3%, lower on a year-on-year basis, and power consumption of urban and rural residents was 315.6 billion kwh, representing a growth of 3.9%, decreasing substantially by 8.8 percentage points when compared with the same period of last year.

In the first half of 2013, power generation from large-scale power plants in the PRC was 1,995.5 billion kwh, representing a year-on-year growth of 2.6%, with the growth remaining unchanged when compared with the same period of last year. The utilisation hours of thermal power equipment were 2,412 hours, representing a year-on-year decrease of 83 hours.

From January to June, the average utilisation hours of hydropower generators increased by 76 hours year-on-year to 1,532 hours, and power generation was 329.1 billion kwh, representing a year-on-year growth of 11.8%.

As at the end of June, the nationwide capacity of power generation equipment of power plants with capacity of 6,000 kW and above reached 1,142.11 million kW, representing a year-on-year growth of 9.3%, of which the thermal power installed capacity was 834.18 million kW, representing a year-on-year growth of 7.7% or an increase of 0.5 percentage point year-on-year.

Prospect for the second half of 2013

Due to the low base in the second half of last year, electricity consumption growth in the second half of 2013 is expected to improve slightly.

Industry-wise, given the economic restructuring and the regular growth in electricity consumption by residents in the third quarter, electricity consumption growth of the tertiary industry and that of residents in the second half of 2013 are expected to be better than those in the first half of 2013, while the overall growth of industrial electricity consumption will basically remain the same as the first half of 2013, thus boosting the growth in overall demand for electricity consumption.

The annual growth of thermal power generation is expected to be better than the first half of 2013; and in view of the growth in thermal power installed capacity, the annual utilisation hours of thermal power are expected to decline slightly when compared with that of last year.

As an overall judgment, the supply of and demand for electricity will be in equilibrium in the second half of 2013, with a slight surplus.

Status of accomplishment of 2013 business targets

Item	Unit	Accomplishment in the first half of 2013	Targets of 2013	Percentage of accomplishment (%)
Commercial coal production	million tonnes	**158.3**	315.0	50.3
Coal sales	million tonnes	**242.7**	464.6	52.2
Electricity sold	billion kwh	**98.31**	205.0	48.0
Revenue	RMB100 million	**1,272.26**	2,714	46.9
Cost of sales	RMB100 million	**860.30**	1,852	46.5
Total of selling, general and administrative expenses and net finance costs	RMB100 million	**50.03**	178	28.1

Note: 1. After making revisions to the items of the financial statements of the Group, net finance costs are calculated by deducting interest income from the finance costs.

2. The above business targets are forward-looking statements made on the basis of subjective assumptions and judgments on future policy and economy. These statements are subject to risks, uncertainties and assumptions. Actual outcome may differ materially from the forward-looking statements. Such statements do not constitute actual commitments to investors. Investors should be aware that undue reliance on or use of such information may lead to risks of investment.

The Company strives to accomplish the 2013 business targets. Due to factors such as demand for coal and thermal electricity and changes in coal price, the realisation of the above business targets are subject to a certain extent of uncertainties. Investors should pay attention to announcements on monthly major operational data and results announcements of the Company in a timely manner.

Changes in profit attributable to equity holders of the Company for the nine months ended 30 September 2013

Based on a number of factors, including the current conditions of the coal market and the operation of the Company, the management of the Company expects that the Group will not experience changes in profit attributable to equity holders of the Company of over 50% for the nine months ended 30 September 2013.

IV. SIGNIFICANT MATTERS

Purchase, sale or redemption of securities of the Company

For the six months ended 30 June 2013, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's securities (as provided under the Hong Kong Listing Rules).

Corporate governance

The Company has adopted the corporate governance polices as set out in Appendix 14 of the Hong Kong Listing Rules. The Company and all directors have been in full compliance with all the principles and provisions and most of the recommended best practices as specified therein during the six months ended 30 June 2013.

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 2013.

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

Other than 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 2013.

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 19 August 2013, the Audit Committee reviewed the Company's interim financial report for the six months ended 30 June 2013 and approved submission of the interim financial report to the board for approval.

Subsequent event

After 30 June 2013, there is no occurrence of any important event that may affect the Group.

V. DEFINITIONS

No.	Abbreviation	Full name
1	Shenhua Group Corporation	Shenhua Group Corporation Limited
2	Shenhua Group	Shenhua Group Corporation Limited and its controlling subsidiaries
3	China Shenhua or the Company	China Shenhua Energy Company Limited
4	The Group	the Company and its subsidiaries
5	Zhunchi Railway	Shenhua Zhunchi Railway Company Limited
6	Shuohuang Railway Company	Shuohuang Railway Development Co., Ltd.
7	Tianjin Coal Dock	Shenhua Tianjin Coal Dock Co., Ltd.
8	Finance Company	Shenhua Finance Co., Ltd.
9	A Share(s)	Ordinary shares that are issued to domestic investors with the approval of CSRC and listed in the domestic stock exchanges, and denominated, subscribed and transacted in Renminbi
10	H Share(s)	Ordinary shares that are issued to domestic investors with the approval of CSRC and listed on the Hong Kong Stock Exchange, and denominated, subscribed and transacted in Hong Kong dollar
11	JORC	Australasian Code for Reporting of Mineral Resources and Ore Reserves sets out the standards, recommendation and guidelines for public reporting in Australasia of exploration results, mineral resources and ore reserves, a widely accepted code for reserve reporting purpose
12	Shanghai Stock Exchange	Shanghai Stock Exchange

No.	Abbreviation	Full name
13	Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
14	Accounting Standards for Business Enterprises	Accounting Standards for Business Enterprises – Basic Standard and Business Enterprises 38 specific accounting standards issued by the Ministry of Finance of the People's Republic of China on 15 February 2006 and the Application Guidance to Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other related requirements subsequently issued
15	RMB	Renminbi, unless otherwise specified.

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

Beijing, 23 August 2013

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.