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 2014

FINANCIAL HIGHLIGHTS

- Revenue of the Group in the first half of 2014 were RMB129,197 million, representing an increase of RMB535 million or 0.4% over the same period of 2013.

- Profit for the period attributable to equity holders of the Company was RMB22,775 million, representing a decrease of RMB2,520 million or 10.0% over the same period of 2013.

- Earnings per share for the period was RMB1.145.

- EBITDA[1] in the first half of 2014 was RMB46,149 million, representing a decrease of RMB767 million or 1.6% over the same period of 2013.

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 2014 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 amortization, 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 2014 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 2014

		Six months ended 30 June	
		2014	2013
		RMB million	*RMB million*
		(Unaudited)	(Unaudited)
			(Restated)
Revenue	*2*	**129,197**	128,662
Cost of sales	*3*	**(89,101)**	(86,673)
Gross profit		**40,096**	41,989
Selling, general and administrative expenses		**(4,010)**	(4,223)
Other gains and losses		**(256)**	(188)
Other income		**315**	180
Other expenses		**(142)**	(122)
Interest income		**293**	338
Finance costs		**(1,915)**	(1,310)
Share of results of associates		**138**	265
Profit before income tax		**34,519**	36,929
Income tax expense	*4*	**(6,866)**	(6,843)
Profit for the period		**27,653**	30,086
Other comprehensive income (expense) for the period, net of tax, that may be subsequently reclassified to profit or loss:			
Exchange differences		**277**	(526)
Total comprehensive income for the period		**27,930**	29,560
Profit for the period attributable to:			
Equity holders of the Company		**22,775**	25,295
Non-controlling interests		**4,878**	4,791
		27,653	30,086
Total comprehensive income for the period attributable to:			
Equity holders of the Company		**23,050**	24,768
Non-controlling interests		**4,880**	4,792
		27,930	29,560
Earnings per share (RMB)	*6*		
– Basic		**1.145**	1.272

Condensed consolidated statement of financial position

at 30 June 2014

	At 30 June 2014 *RMB million* **(Unaudited)**	At 31 December 2013 *RMB million* (Audited)
Non-current assets		
Property, plant and equipment	**269,045**	262,116
Construction in progress	**75,007**	76,065
Exploration and evaluation assets	**2,420**	2,251
Intangible assets	**1,392**	1,446
Interest in associates	**4,732**	4,866
Available-for-sale investments	**1,037**	1,032
Other non-current assets	**35,910**	28,148
Lease prepayments	**13,976**	14,243
Deferred tax assets	**2,088**	1,723
Total non-current assets	**405,607**	391,890
Current assets		
Inventories	**18,369**	17,641
Accounts and bills receivable	**34,775**	27,221
Prepaid expenses and other current assets	**29,311**	30,274
Restricted bank deposits	**7,402**	6,648
Time deposits with original maturity over three months	**1,440**	1,292
Cash and cash equivalents	**63,469**	38,332
Total current assets	**154,766**	121,408
Current liabilities		
Borrowings	**43,157**	38,503
Short-term debenture	**19,959**	9,982
Accounts and bills payable	**38,205**	37,800
Accrued expenses and other payables	**64,830**	42,692
Current portion of long-term payables	**191**	311
Income tax payable	**2,760**	2,221
Total current liabilities	**169,102**	131,509
Net current assets	**(14,336)**	(10,101)
Total assets less current liabilities	**391,271**	381,789
Non-current liabilities		
Borrowings	**37,348**	37,084
Medium-term notes	**4,962**	4,958
Long-term payables	**1,829**	1,867
Accrued reclamation obligations	**2,036**	1,973
Deferred tax liabilities	**1,251**	1,265
Total non-current liabilities	**47,426**	47,147
Net assets	**343,845**	334,642
Equity		
Share capital	**19,890**	19,890
Reserves	**262,016**	257,013
Equity attributable to equity holders of the Company	**281,906**	276,903
Non-controlling interests	**61,939**	57,739
Total equity	**343,845**	334,642

Condensed consolidated statement of changes in equity

for the six months ended 30 June 2014

	Attributable to equity holders of the Company									
	Share capital *RMB million* *(Note 24)*	Share premium *RMB million* *(note (i))*	Capital reserve *RMB million* *(note (ii))*	Exchange reserve *RMB million*	Statutory reserves *RMB million* *(note (iii))*	Other reserves *RMB million*	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	16,554	(1,835)	139,227	263,183	49,968	313,151
Profit for the period	–	–	–	–	–	–	25,295	25,295	4,791	30,086
Other comprehensive expense for the period	–	–	–	(527)	–	–	–	(527)	1	(526)
Total comprehensive income for the period	–	–	–	(527)	–	–	25,295	24,768	4,792	29,560
Dividend declared *(note 5)*	–	–	–	–	–	–	(19,094)	(19,094)	–	(19,094)
Appropriation of maintenance and production funds	–	–	–	–	2,368	–	(2,368)	–	–	–
Utilisation of maintenance and production funds	–	–	–	–	(1,234)	–	1,234	–	–	–
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, as restated)	19,890	85,001	3,612	207	17,690	(1,985)	144,294	268,709	55,159	323,868

	Attributable to equity holders of the Company									
	Share capital *RMB million* *(Note 24)*	Share premium *RMB million* *(note (i))*	Capital reserve *RMB million* *(note (ii))*	Exchange reserve *RMB million*	Statutory reserves *RMB million* *(note (iii))*	Other reserves *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2014	19,890	85,001	3,612	(52)	15,031	(11,290)	164,711	276,903	57,739	334,642
Profit for the period	-	-	-	-	-	-	22,775	22,775	4,878	27,653
Other comprehensive expense for the period	-	-	-	275	-	-	-	275	2	277
Total comprehensive income for the period	-	-	-	275	-	-	22,775	23,050	4,880	27,930
Dividend declared	-	-	-	-	-	-	(18,100)	(18,100)	-	(18,100)
Appropriation of maintenance and production funds	-	-	-	-	3,158	-	(3,158)	-	-	-
Utilisation of maintenance and production funds	-	-	-	-	(1,814)	-	1,814	-	-	-
Capital contributions from non-controlling shareholders	-	-	-	-	-	-	-	-	400	400
Distributions to non-controlling shareholders	-	-	-	-	-	-	-	-	(1,073)	(1,073)
Other	-	-	-	-	-	53	-	53	(7)	46
At 30 June 2014 (Unaudited)	19,890	85,001	3,612	223	16,375	(11,237)	168,042	281,906	61,939	343,845

Note:

In 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 listed on the Shanghai Stock Exchange.

Condensed consolidated statement of cash flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
		(Restated)
OPERATING ACTIVITIES		
Profit before income tax	**34,519**	36,929
Adjustments for:		
Depreciation and amortisation	**10,146**	9,280
Other gains and losses	**256**	188
Interest income	**(293)**	(338)
Share of results of associates	**(138)**	(265)
Interest expense	**1,789**	1,790
Fair value (gain) loss on derivative financial instruments and trading debt securities	**(26)**	136
Exchange loss (gain), net	**152**	(616)
Operating cash flows before movements in working capital	**46,405**	47,104
Increase in inventories	**(730)**	(3,471)
Increase in accounts and bills receivable	**(7,554)**	(6,507)
Increase in prepaid expenses and other assets	**(3,759)**	(8,337)
Increase (decrease) in accounts and bills payable	**405**	(791)
Increase in accrued expenses and other payables	**4,020**	485
Cash generated from operations	**(38,787)**	28,483
Income taxes paid	**(6,706)**	(9,700)
NET CASH FROM OPERATING ACTIVITIES	**32,081**	18,783
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, intangible assets, exploration and evaluation assets, and additions to construction in progress	**(17,882)**	(21,550)
Increase in lease prepayments	**(233)**	(116)
Proceeds from disposal of property, plant and equipment, intangible assets and lease prepayments	**25**	46
Proceeds from disposal of an associate	**–**	229
Investments in associates	**(8)**	(185)
Dividend received from associates	**308**	214
Interest received	**249**	301
Interest received on trading debt securities	**62**	37
Proceeds from trading debt securities	**146**	–
Net increase in restricted bank deposits	**(754)**	(279)
Increase in time deposits with original maturity over three months	**(576)**	(565)
Maturity of time deposits with original maturity over three months	**428**	1,781
Repayment of entrusted loans	**15**	–
Entrusted loans to a third party	**(37)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(18,257)**	(20,087)

	Six months ended 30 June	
	2014	2013
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
		(Restated)
FINANCING ACTIVITIES		
Interest paid	**(2,190)**	(2,033)
Proceeds from borrowings	**30,699**	14,633
Repayments of borrowings	**(25,944)**	(21,691)
Net proceeds from short-term debentures	**19,945**	–
Payments of short-term debentures	**(10,000)**	–
Contributions from non-controlling shareholders	**400**	910
Contributions from equity holders of the Company	**53**	–
Distributions to non-controlling shareholders	**(1,652)**	(1,383)
Acquisition of non-controlling interest	**–**	(15)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**11,311**	(9,579)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**25,135**	(10,883)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**38,332**	51,637
Effect of foreign exchange rate changes	**2**	(47)
CASH AND CASH EQUIVALENTS AT 30 JUNE	**63,469**	40,707

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to International Financial Reporting Standards ("IFRSs") issued by IASB:

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*

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

2. Revenue

The Group is principally engaged in the production and sale of coal and coal chemical products, generation and sale of power and the provision of transportation services in the PRC.

	Six months ended 30 June	
	2014	2013
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
		(Restated)
Coal revenue	**71,230**	82,957
Power revenue	**36,334**	36,463
Transportation revenue	**2,330**	2,399
Coal chemical revenue	**3,181**	2,658
	113,075	124,477
Other revenue	**16,122**	4,185
	129,197	128,662

3. Cost of sales

	Six months ended 30 June	
	2014	2013
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
		(Restated)
Coal purchased	**26,324**	36,023
Materials, fuel and power	**9,007**	9,972
Personnel expenses	**5,054**	5,475
Depreciation and amortisation	**8,963**	8,424
Repairs and maintenance	**4,389**	3,969
Transportation charges	**7,864**	8,194
Taxes and surcharges	**1,869**	2,409
Others	**25,631**	12,207
	89,101	86,673

4. Income tax

	Six months ended 30 June	
	2014	2013
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
		(Restated)
Provision for PRC income tax	**7,245**	7,184
Deferred tax	**(379)**	(341)
	6,866	6,843

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 2013: 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	
	2014	2013
	%	%
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 RMB0.91 per share totalling RMB18,100 million in respect of the year ended 31 December 2013 was approved at the annual general meeting held on 27 June 2014 and was subsequently paid in July and August 2014.

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

The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

6. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2014 was based on the profit attributable to equity holders of the Company of RMB22,775 million (six months ended 30 June 2013: RMB25,295 million, as restated) and the number of shares in issue during the six months ended 30 June 2014 of 19,890 million (six months ended 30 June 2013: 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

Certain comparative figures have been adjusted as a result of the 2013 acquisitions. As a result of 2013 Acquisitions, the relevant line items in the condensed consolidated statement of profit or loss and other comprehensive income and condensed consolidated statement of cash flows for six months ended 30 June 2013 have been restated as follows:

	The Group (as previously reported) *RMB million*	Effect of 2013 Acquisitions *RMB million*	Eliminations *RMB million*	The Group *RMB million* (Restated)
Condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2013:				
Revenue	127,226	2,895	(1,459)	128,662
Cost of sales	(86,030)	(2,102)	1,459	(86,673)
Selling, general and administrative expenses	(4,156)	(67)	–	(4,223)
Interest income	329	9	–	338
Finance costs	(1,176)	(134)	–	(1,310)
Condensed consolidated statement of cash flows for the six months ended 30 June 2013:				
Net cash generated from (used in):				
Operating activities	17,918	880	(15)	18,783
Investing activities	(19,844)	(243)	–	(20,087)
Financing activities	(8,953)	(626)	–	(9,579)

8. Review of condensed consolidated financial statements

The condensed consolidated financial statements for the six months ended 30 June 2014 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 2014 interim report of China Shenhua and to report to all shareholders on the Company's performance for the period.

As a result of a number of factors such as the slowing-down economic growth, oversupply of coal and the increasing proportion of non-fossil energy in power generation, spot prices of coal continued to decline and the loss in the coal industry in China continued to increase.

Faced with the challenging situation, China Shenhua, focusing on value creation, actively responded to market changes and adjusted its business structure, thereby mitigating the impact of falling coal prices. Efforts were made to optimize operation and make full use of the advantage of integrated operation, thus effectively delivering a generally stable business performance for shareholders.

As at 30 June 2014, the total market capitalization of China Shenhua reached US$48.8 billion, ranking the first among all listed coal companies worldwide and the fourth among all listed integrated mining companies worldwide.

In the first half of 2014: adjustment of structure and optimization of operation fully unleashed the advantages of integrated operation

Adjustment of structure effectively mitigated the impact of declining coal prices. The Company continued to adjust its business structure, and effectively mitigated the impact of the sharp fall in the spot prices of coal. Under the International Financial Reporting Standards, operating profit from the coal business before elimination on consolidation dropped by RMB4,962 million to RMB16,164 million in the first half of the year from RMB21,126 million in the same period of last year, while total operating profit before elimination on consolidation from the power, transportation and coal chemical businesses rose by RMB3,050 million to RMB19,841 million from RMB16,791 million. Under the International Financial Reporting Standards, China Shenhua's earnings per share amounted to RMB1.145/share for the first half of 2014, representing a decrease of 10.0% year-on-year. The Company maintained a generally stable level of profit albeit the substantial decrease in profit in the coal industry.

Optimization of operation fully unleashed the advantages of integrated operation. Based on the principle of benefit maximization, with the motivation of coal sales taking the leading role, the Company created synergies for each business segment to ensure safe and smooth operation of business integration.

The coal segment took the initiative to adjust the coal source structure and sales structure, adopted market-oriented sales and pricing policies, prioritized the output from its own highly profitable coal mines and the sales of seaborne coal, and moderately reduced the amount of coal which were purchased from external parties. Sales of seaborne coal increased year-on-year by 7.7% to 119.5 million tonnes during the first half of 2014 from 111.0 million tonnes during the same period of last year, while sales of domestic trading coal dropped year-on-year by 45.4% to 15.9 million tonnes during the first half of 2014 from 29.1 million tonnes during the same period of last year.

The power segment proactively responded to various adverse effects such as the increasing market shares taken up by hydropower generation and decreasing power tariff by strengthening the operation and management of generators, intensifying the marketing efforts and increasing the market share of unplanned electricity with a view to maintain the steady growth of operating efficiency. In the first half of the year, power output dispatch reached 99.38 billion kwh, and the average utilization hours of coal-fired generators reached 2,574 hours, surpassing the national average utilization hours of coal-fired power generators by 199 hours.

The transportation segment increased the number of trains with a capacity of ten thousand tonnes; optimized the travelling routes of trains; strengthened the management of port inventory capacity; improved the coordination of production, transportation and marketing; and coped with the impact of bad weather and fluctuation in dispatch arrangements, with a view to ensure the efficient use of capacity as well as the safe and smooth operation of the integrated system.

The coal chemical segment placed emphasis on the management of production organization as well as on safety and environmental protection. The sales of polyethylene and polypropylene products rose by 14.0% and 14.3% respectively as compared with the same period of last year, representing the continuous growth of operating efficiency.

Proactively pushed forth preliminary preparation of projects and advanced construction of key projects in an orderly manner. Progress was made during preliminary preparation of projects with significant breakthroughs achieved in some key events. Reasonable arrangements were made for future capacity planning by pushing forward the construction schedule for the key projects in an orderly manner, such as Guojiawan Coal Mine, Qinglongsi Coal Mine, Chongqing Wanzhou Port and Power Integration Project and Zhunchi Railway, to further optimize the integration of the coal, power and transportation segments. The successful development of the Jinjie Digital Mine Project demonstrated the effectiveness of reformation to refined and intellectualized management. Progress was made in the geological exploration for the shale gas project in Baojing, while overseas projects such as the PT.GH EMM Indonesia Project, Watermark Coal Project in Australia, shale gas joint venture project in the United States and railway construction project at China-Mongolia port were advancing in an orderly manner.

Continued to raise the quality of operations. Faced with a number of unfavorable factors such as complex geological conditions for coal production, upward adjustment to national railway freight rates as well as increased investment in safety and environmental protection, the Company further strengthened budgetary management; stepped up the recovery of notes and accounts receivable; and implemented stringent cost and expense control measures. In the first half of the year, under the International Financial Reporting Standard, the unit production cost of the Company's self-produced coal was RMB127.2/tonne, representing an increase of 2.4% year-on-year. The Company continued to maintain its low-cost competitive edge, thus having maintained healthy financial status and cash flow.

Stable production safety and energy conservation reaped significant results. The Company continued to improve the intrinsic safe management system, and strengthened the control and regulation of major potential hazards, which in turn procured the stableness of production safety. The fatality rate per million tonnes of raw coal production was 0.0118 in the first half of 2014, enabling the Company to continue to maintain the international advanced standards.

The Company implemented the atmosphere action plan and focused on accomplishing desulfurization, denitrification and dedust renovation projects for coal-fired generators to achieve "near-zero emission". As at the end of June 2014, all of the Company's coal-fired generators were already installed with operating desulfurization facilities. Generators installed with operating denitrification facilities accounted for 92.9% of coal-fired generators, an increase of 20.9 percentage points compared with the end of 2013, making the Company a leading player in the industry. After the "near-zero emission" renovation project, the air pollutant discharge of the Company's coal-fired generators have met and outperformed the national standard of air pollutant emissions for gas-fired generators. The Company also commenced the "near-zero emission" technological renovation to the operational generators in Beijing, Tianjin and Hebei regions and spared no effort to apply the same technology on newly built generators.

Looking ahead: maintain steady growth, boost transformation and build the Company into an internationally renowned supplier of clean energy

Currently, the coal industry in China is at a stage of significant adjustment and transformation characterized by oversupply, exacerbated competition, falling prices, increased pressure on environmental protection and an expanding scale of loss in the industry. But in the long run, through comprehensive and in-depth reform, the Chinese economy will continue to grow steadily and healthily, providing vast potential of development for the coal industry. After this round of adjustment, the coal industry will become more stable, and we are fully confident about the prospect of the coal industry, especially the business related to the clean and efficient utilization of coal.

Firstly, the richness of coal energy, poverty in oil energy and lack of gas energy in China are the determinants that have shaped the status of coal as the main energy in China, which will remain unchanged for a considerable length of time in future. Since China is still in the industrialization and urbanization phase, total coal consumption will still witness moderate increase in the medium and long run in order to maintain the growth of national economy.

Secondly, the extensive development and utilization of coal is unsustainable and the Chinese government aims to reform the energy production and consumption. It is essential for the coal industry to accelerate transformation and upgrade and advocate the clean and efficient utilization of coal with an aim to transform coal into clean energy.

Thirdly, the application of innovative technologies in the efficient utilization and clean conversion of coal at home and abroad has proved that coal could be utilized in an efficient and clean way. Coal as a clean energy holds a promising future.

Faced with the opportunities and challenges from the transitional development of the coal industry, China Shenhua will **"focus on one goal, grasp two changes, push forward four developments and achieve five enhancements"**.

Becoming a world-class integrated energy enterprise is the development goal of China Shenhua as well as the leading strategy for China Shenhua over the next few years. To become a world-class enterprise, China Shenhua will build itself into an internationally renowned supplier of clean energy based on its fundamental features of state-of-the-art technology, advanced management, value creation and innovation-driven approach, achieving improvement in core competitiveness and creating Shenhua's new features and new advantages.

To grasp "two changes" means to grasp the change in the concept and mode of development.

As to the change in the concept of development, China Shenhua needs to switch gradually from the pursuit of expanding its scale to the strengthening and improvement of its principal business, and increase its anti-risk capability and market competitiveness by strengthening its business chain, fine-tuning its products and optimizing its management. Further, China Shenhua needs to reinforce the concept of value creation. Aiming to create greater value, China Shenhua will enhance the safety and stability of primary energy supply as well as the added value of coal to increase the proportion of clean energy provision. Lastly, China Shenhua needs to further strengthen the concept of innovation. China Shenhua will vigorously promote energy consumption revolution and develop new technologies for energy consumption to accelerate clean coal transformation and effective utilization of coal.

As to the change in the mode of development, China Shenhua needs to push forward its switch from a resource-dependent model to an innovation-driven model, and from the role as the world's major coal dealer to the role as an internationally renowned supplier of clean energy. Firstly, by establishing an industrial system of clean energy, China Shenhua will establish a modernized industrial development system of clean energy featuring high integration, deep synergy and chain operation. Secondly, by striving to become a provider of clean energy solutions, in addition to the provision of clean energy products to customers and the society, China Shenhua will provide customers with clean energy solutions in the form of technology service. Thirdly, by focusing on integrated operations and improving operational performance, China Shenhua will set up a strategic control system that is compatible and coordinative with the integration of mining, power, railway, port, shipping and chemical businesses and that can be used to create maximum value. By improving the capability of integration in terms of strategy, resources, business, culture and management, China Shenhua will promote the standardization, normalization and informatization of businesses to enhance its overall competitiveness.

To push forward "four developments" means to push forward safe development, transitional development, innovative development and harmonious development.

Safe development is the foundation and prerequisite of the overall development of China Shenhua. China Shenhua needs to focus attention on production safety, environmental safety and market safety and stable corporate operations.

Transitional development is the key. China Shenhua focuses on enhancing quality and efficiency, green and low carbon, clean transformation as well as industrial upgrade, ensuring the synergetic and balanced integrated operation, the quality improvement and efficiency enhancement of principal business, and exploration of unconventional oil and gas and globalized operation.

Innovative development is the impetus. China Shenhua needs to focus on innovation in system, management and technology.

Harmonious development is a responsibility. Being an outstanding corporate citizen, China Shenhua will achieve a win-win situation with all stakeholders. China Shenhua will place great emphasis on the common development with stakeholders like customers, the government, shareholders, the public, the media and employees; strengthen Shenhua's cohesion and solidarity and enhance Shenhua's brand image and social reputation.

To achieve "five enhancements" means to enhance, by means of the aforesaid efforts, the quality and efficiency of development, the standards of management, the capability of internationalization, the soft power of the enterprise and the ability to fulfill social responsibilities.

In the second half of 2014: overcoming difficulties to create more value for shareholders

In the second half of the year, China Shenhua will, based on ensuring the safe and smooth operation of business integration, further optimize the organizational coordination of production, transportation and sales, and strive to excel for its shareholders. The Company will focus on the following tasks:

Adapting to market changes, capitalizing on comparative advantages and vigorously boosting sales. Firstly, China Shenhua will carry out timely adjustment on the types of coal for sales and the sales flow in accordance with market changes, improve coal sources and ensure the high priority for the sales of seaborne coal which yield the highest profitability. Secondly, China Shenhua will expand its market share by leveraging on the environmental protection advantages of Shenhua coal. Pursuant to the national requirements on loose coal cleaning and treatment, the substitution of clean Shenhua coal is under way in Beijing, Tianjin and Hebei regions. China Shenhua will take advantage of the low-sulfur and low-dust features of Shenhua coal to increase its coal market share. Thirdly, China Shenhua will enhance its service quality by promoting differentiated sales to satisfy the service needs of different types of customers. Fourthly, China Shenhua will adopt an innovative trading model with an emphasis on e-bidding procurement and sales.

Scheduling production and operation in a scientific manner. China Shenhua will adapt to market changes and adjust production volume of mines, so as to optimize the product mix. The technological and management innovations such as digital mine will create value and enhance efficiency in course of achieving refined and intellectualized management. Focusing on the increase of market share in power generation market, China Shenhua will seize development opportunities arising from macro policies, regional development, industrial upgrade as well as periodic peak periods of power demand, endeavoring to boost power generation volume. The number of trains with capacity of ten thousand tonnes will be further increased by the accelerated renovation of stations and railways for capacity expansion. The preparation for the operation of trains with capacity of 20,000 tonnes and the scheduled completion of the entire Zhunchi railway will effectively enhance the transportation capacity. By achieving safe, stable, long-time, full load and high quality operation of coal chemical business, China Shenhua will reduce the consumption of materials, energy and water and improve the quality of products.

Constantly promoting refined management, effectively enhancing management performance and operational efficiency. Firstly, China Shenhua will tighten cost control, implement regular dispatch, monitoring and assessment, and minimize non-productive expenses, aiming to reduce finance costs as far as possible. Secondly, China Shenhua will strengthen investment management, reasonably control the investment scale and prevent investments with low efficiency. Thirdly, China Shenhua will emphasize the cash flow management and secure cash flows by controlling the increase of inventories and accounts and bills receivable. Fourthly, China Shenhua will optimize resources allocation and strengthen the disposal of non-efficiency and low-efficiency assets so as to improve asset quality and operational efficiency.

Strengthening environmental protection, energy saving and emission reduction, and accelerating the construction of environmental risk prevention and control system. Firstly, China Shenhua will continue to promote the construction of clean production system. Aiming at green and highly efficient mining, coal business will ensure the stable supply of low-sulfur and low-dust "Shenhua coal". Aiming at "near-zero emission", power business will strictly implement an air pollution control plan, expedite the renovation of the operating power plants and reinforce environmental protection in newly built power plants, securing the leading position in green power generation. Aiming at green development, coal chemical business will strengthen technological research and continue to promote the clean conversion of coal. Secondly, China Shenhua will focus on the key inspection of pollutant emission and disposal at newly built projects pursuant to the highest national standards, map out environmental protection facilities far in advance and ensure parallel design and construction. Thirdly, China Shenhua will improve and optimize its online surveillance platform, conduct comprehensive monitoring and warning, and ensure the normal operation of the environmental protection system.

Constantly pushing forward asset injection of Shenhua Group. On the basis of the previous five asset injections, the Board of the Company has approved the sixth asset injection to be commenced at the second half of the year with target assets mainly including "near-zero emission" and coal-fired power generators with relatively high capacity.

The management and all the employees of China Shenhua will overcome difficulties with strong determination, in a bid to push forward transformation and upgrade, accelerate the establishment of a clean energy supply system bearing the characteristics of Shenhua, and build itself into an internationally renowned supplier of clean energy to create more 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 2014, the management of China Shenhua proactively responded to market changes to ensure operations of various business segments with safety, synergy and efficiency by flexibly adjusting sales strategies, strengthening organization of production and transportation and strictly controlling costs, fees and expenses, striving to maintain steady results against headwinds.

In the first half of 2014, the Company maintained its market share and stabilized production for the coal business. The commercial coal production volume reached 155.0 million tonnes (first half of 2013: 158.3 million tonnes (restated)), representing a year-on-year decrease of 2.1%. Coal sales volume reached 234.6 million tonnes (first half of 2013: 242.7 million tonnes (restated)), representing a year-on-year decrease of 3.3%. Through optimizing the operation of generators of the power business, the Company strived to increase its power generation. In the first half of 2014, total power output dispatch reached 99.38 billion kwh (first half of 2013: 98.31 billion kwh (restated)), representing a year-on-year increase of 1.1%. Transportation business went through meticulous adjustments, achieving orderly operations of the newly added transportation lines and steady increase in transportation capabilities. The transportation turnover of self-owned railway reached 109.5 billion tonne km (first half of 2013: 101.7 billion tonne km (restated)), representing a year-on-year increase of 7.7%. Seaborne coal reached 119.5 million tonnes (first half of 2013: 111.0 million tonnes (restated)), representing a year-on-year increase of 7.7%. Shipping volume reached 45.5 million tonnes (first half of 2013: 43.3 million tonnes (restated)), representing a year-on-year increase of 5.1%. Production equipment for the coal chemical business operated with stability, coal-to-polyethylene products sales in the first half of 2014 reached 152.5 thousand tonnes (first half of 2013: 133.8 thousand tonnes (restated)), representing a year-on-year increase of 14.0% and coal-to-polypropylene products sales reached 155.0 thousand tonnes (first half of 2013: 135.6 thousand tonnes (restated)), representing a year-on-year increase of 14.3%.

In accordance with the International Financial Reporting Standards ("IFRSs"), the Group's revenue for the first half of 2014 was RMB129,197 million (first half of 2013: RMB128,662 million (restated)), representing a year-on-year increase of 0.4%. Profit for the period attributable to equity holders of the Company was RMB22,775 million (first half of 2013: RMB25,295 million (restated)), representing a year-on-year decrease of 10.0%. Basic earnings per share[1] were RMB1.145 per share (first half of 2013: RMB1.272 per share (restated)), representing a year-on-year decrease of 10.0%.

As at 30 June 2014, equity attributable to equity holders of the Group per share was RMB14.17, representing an increase of 1.8% from RMB13.92 as at 31 December 2013. As at 30 June 2014, the Group's return on total assets[2] was 4.9%. Return on net assets[3] as at the end of the period was 8.1% (first half of 2013: 9.4% (restated)), representing a year-on-year decrease of 1.3 percentage points. EBITDA[4] was RMB46,149 million (first half of 2013: RMB46,916 million (restated)), representing a year-on-year decrease of 1.6%. As at 30 June 2014, the Group's liability ratio (total liabilities/total assets) was 38.6%, representing an increase of 3.8 percentage points from 34.8% as at 31 December 2013. Total debt to capital ratio[5] was 23.9%, representing an increase of 2.3 percentage points as compared to 21.6% as at 31 December 2013.

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

2 Return on total assets is calculated on the basis of the aggregate 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 as at the end of the period.

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 amortization, and excluding share of results of associates and interest income. 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 capital 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 consolidated statement of profit and loss and other comprehensive income

No.	Item	First half of 2014	First half of 2013 (restated)	Change	Main reasons for changes
		RMB million	*RMB million*	%	
1	Revenue	**129,197**	128,662	0.4	Decrease in coal sales price and volume; increase in material trading volume and sales volume of coal to polyethylene and polypropylene products
2	Cost of sales	**(89,101)**	(86,673)	2.8	Increase in purchase cost relating to material trading; decrease in cost of purchased coal
3	Other gains and losses	**(256)**	(188)	36.2	Increase in asset impairment loss
4	Other income	**315**	180	75.0	Increase in income subsidies
5	Finance costs	**(1,915)**	(1,310)	46.2	Effect from exchange gains or losses of borrowings denominated in Japanese Yen due to appreciation in Japanese Yen for the reporting period as compared to depreciation in Japanese Yen for the same period of last year
6	Share of results of associates	**138**	265	(47.9)	Decrease in profit of associates engaged in coal and power business
7	Income tax expense	**(6,866)**	(6,843)	0.3	The average income tax rate for the Group was 19.9%, representing an increase of 1.4 percentage points as compared to 18.5% of the same period of last year, mainly attributable to the decrease in profit of the coal segment that was entitled to a higher preferential tax rate and increase in profit of the power generation segment and transportation segment that were entitled to a lower preferential tax rate

(2) Research and development expenditure

		First half of 2014	First half of 2013 (restated)	**Change** *(%)*
Expensed research and development expenditure in the period	RMB million	**100**	138	(27.5)
Capitalised research and development expenditure in the period	RMB million	**435**	169	157.4
Total research and development expenditure	RMB million	**535**	307	74.3
Percentage of total research and development expenditure to revenue	%	**0.41**	0.24	Increased by 0.17 percentage point

In the first half of 2014, the total research and development expenditure of the Group was RMB535 million, representing a year-on-year increase of 74.3%, which was mainly attributable to the strengthened research of the Group in areas including technology on safe coal production, upgrade and renovation of power generators, complete technologies on heavy-haul railways, comprehensive use of coal ash, coal chemical technologies, development of information technology. The increase in research and development investment 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 competitiveness and its ability to maintain sustainable growth.

2. *Consolidated assets and liabilities*

(1) Items of consolidated statement of financial position

No.	Item	**As at 30 June 2014** Amount	**As at 30 June 2014** Percentage of total assets	As at 31 December 2013 Amount	As at 31 December 2013 Percentage of total assets	**Change**	**Main reasons for changes**
		RMB million	%	*RMB million*	%	%	
1	Exploration and evaluation assets	**2,420**	**0.4**	2,251	0.4	7.5	Increase in investment in Watermark Coal Project and Shale gas project in Baojing as well as appreciation of Australian dollars
2	Other non-current assets	**35,910**	**6.4**	28,148	5.5	27.6	Increase in long-term loans granted by Shenhua Finance Company and increase in prepayment relating to project construction and equipment procurement
3	Accounts and bills receivable	**34,775**	**6.2**	27,221	5.3	27.8	Increase in receivables from coal sales, power output dispatch and material trading, and increase in bank acceptance bills relating to the coal business
4	Restricted bank deposits	**7,402**	**1.3**	6,648	1.3	11.3	Increase in statutory reserve fund placed with People's Bank of China by Shenhua Finance Company
5	Cash and cash equivalents	**63,469**	**11.3**	38,332	7.5	65.6	Increase in net borrowings
6	Short-term debentures	**19,959**	**3.6**	9,982	1.9	99.9	Increase in net amount of the super short-term financing debentures issued by the Company during the reporting period
7	Accrued expenses and other payables	**64,830**	**11.6**	42,692	8.3	51.9	The Company's final dividend for the year 2013 had not been distributed as at the end of the reporting period

(2) During the reporting period, the Group has not placed any charges over its assets that are significant.

(3) During the reporting period, there was no material change in measurement attributes for major assets of the Group.

3. *Condensed consolidated statement of cash flows*

No.	Item	**First half of 2014**	First half of 2013 (restated)	**Change**	**Main reasons for changes**
		RMB million	*RMB million*	*%*	
1	Net cash inflow from operating activities	**32,081**	18,783	70.8	Increase in deposits placed with and decrease in loans granted by Shenhua Finance Company
	Of which: net cash inflow (outflow) from operating activities of Shenhua Finance Company [note]	**1,659**	(10,248)	(116.2)	
	Net cash inflow from operating activities excluding the effects of Shenhua Finance Company	**30,422**	29,031	4.8	
2	Net cash outflow from investing activities	**(18,257)**	(20,087)	(9.1)	Decrease in cash payment for acquisition and construction of fixed assets
3	Net cash inflow (outflow) from financing activities	**11,311**	(9,579)	(218.1)	Increase in net external debt financing

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

Review on Operating Results by Business Segments

In the first half of 2014, the Company highlighted its efforts in maximization of value creation to increase synergic co-operations between segments, continuously optimize business structure and achieve safe and steady development, resulting in further increase in risk resistance capabilities.

In the first half of 2014, profit from operations of the coal segment reached RMB16,164 million, representing a year-on-year decrease of 23.5%. However, the profit from operations of power, transportation and coal chemical segments achieved RMB10,030 million, RMB8,831 million and RMB980 million, respectively, representing a year-on-year increase of 20.9%, 13.7% and 34.6%, respectively. Coal, power, transportation and coal chemical businesses had margin of profit from operations before elimination on consolidation of 45%, 28%, 24% and 3%, respectively (first half of 2013: 56%, 22%, 20% and 2% (restated)).

(I) Coal Segment

1. Coal production and mining operation

In the first half of 2014, the Company was affected by the oversupply situation in the coal market. The commercial coal production volume of the Company was 155.0 million tonnes, representing a year-on-year decrease of 3.3 million tonnes, of which commercial coal production volume in Shendong Mines was 97.0 million tonnes, representing a year-on-year decrease of 0.7 million tonnes. Commercial coal production volume in Zhunge'er Mines was 30.0 million tonnes, representing a year-on-year decrease of 0.7 million tonnes. Commercial coal production volume in Baorixile Mines was 13.9 million tonnes, representing a year-on-year decrease of 1.9 million tonnes. Commercial coal production volume in Shengli Mines was 8.6 million tonnes, representing a year-on-year decrease of 0.9 million tonnes. The Company accomplished footage of advancing tunnels of 319 thousand meters, representing a year-on-year decrease of 53 thousand meters, of which Shendong Mines had a decrease of 46 thousand meters and Baotou Mines had a decrease of 7 thousand meters.

The Company continued its effort in optimizing production arrangements by increasing the production in profitable coal mines and that of marketable types of products; enhanced refined management for coal production to raise productivity of work faces; and adopted various measures for cost reduction and efficiency enhancement. Shendong Mines timely increased production in mines with high gross profit, such as Daliuta and Bulianta. Baorixile Mines strengthened management of coal quality to raise product competitiveness and consolidate market share. Shengli Mines increased efficiency through enhancement of coal structure.

In the first half of 2014, the PT.GH EMM Indonesia Project recorded commercial coal production volume of 1.0 million tonnes.

2. Coal sales

In the first half of 2014, under the guidance of integrated operational safety and maximization of overall efficiency, the Company realized sales volume of commercial coal of 234.6 million tonnes (first half of 2013: 242.7 million tonnes (restated)), representing a year-on-year decrease of 3.3%.

(1) By sales types

		First half of 2014			First half of 2013 (restated)			Percentage change	
		Sales volume	Proportion of total sales	Price	Sales volume	Proportion of total sales	Price	Sales volume	Price
		million tonnes	%	*RMB/tonne*	*million tonnes*	%	*RMB/tonne*	%	%
I.	Domestic sales	**226.9**	**96.7**	**361.0**	237.6	97.9	400.6	(4.5)	(9.9)
(1)	Self-produced coal and purchased coal	**206.6**	**88.0**	**356.3**	202.6	83.5	385.4	2.0	(7.6)
	1. Direct arrival	**88.0**	**37.5**	**259.1**	92.9	38.3	280.4	(5.3)	(7.6)
	2. Seaborne	**118.6**	**50.5**	**428.5**	109.7	45.2	474.3	8.1	(9.7)
(2)	Sales of domestic trading coal	**15.9**	**6.8**	**390.5**	29.1	12.0	486.0	(45.4)	(19.7)
(3)	Sales of imported coal	**4.4**	**1.9**	**470.9**	5.9	2.4	501.5	(25.4)	(6.1)
II.	Export Sales	**0.9**	**0.4**	**571.7**	1.3	0.5	634.5	(30.8)	(9.9)
III.	Overseas sales	**6.8**	**2.9**	**586.7**	3.8	1.6	663.0	78.9	(11.5)
	1. EMM Indonesia	**1.0**	**0.4**	**122.8**	1.0	0.4	65.6	–	87.2
	2. Re-export trade	**5.8**	**2.5**	**665.9**	2.8	1.2	871.1	107.1	(23.6)
Total sales volume/weighted average price		**234.6**	**100.0**	**368.4**	242.7	100.0	406.0	(3.3)	(9.3)

The Company strived to increase the sales of seaborne coal. In the first half of 2014, the sales volume of self-produced coal and purchased coal in the Company's domestic seaborne coal sales amounted to 118.6 million tonnes (first half of 2013: 109.7 million tonnes (restated)), representing a year-on-year growth of 8.1%, while the coal shipment transfer for domestic coal sales through domestic ports in the same period was 335.4 million tonnes[1], based on which the market share of China Shenhua in coastal coal markets was estimated at approximately 35.4%.

To safeguard the Company's self-produced commercial coal sales, the Company reduced the sales volume of domestic trading coal. In the first half of the 2014, the sales volume of domestic trading coal was 15.9 million tonnes (first half of the 2013: 29.1 million tonnes (restated)), representing a year-on-year decrease of 45.4%.

The scale of electronic trading of Shenhua Coal Trading Network (www.e-shenhua.com) has undergone continuous expansion. In the first half of 2014, the Company had a coal sales volume through electronic trading of 113.3 million tonnes.

1 Source: CCTD

During the reporting period, the Company has adopted a flexible market-oriented pricing mechanism. In the first half of 2014, the average coal sales price of the Company was RMB368.4/tonne (first half of 2013: RMB406.0/tonne (restated)), representing a year-on-year decrease of 9.3%.

(2) By internal and external customers

	First half of 2014			First half of 2013 (restated)			
	Sales volume	**Percentage of total sales**	**Price**	Sales volume	Percentage of total sales	Price	**Change in price**
	million tonnes	**%**	***RMB/tonne***	*million tonnes*	%	*RMB/tonne*	**%**
Sales to external customers	**189.5**	**80.8**	**375.9**	200.8	82.8	413.1	(9.0)
Sales to internal power segment	**43.0**	**18.3**	**339.0**	39.9	16.4	376.4	(9.9)
Sales to internal coal chemical segment	**2.1**	**0.9**	**296.0**	2.0	0.8	294.2	0.6
Total coal sales volume/weighted average price	**234.6**	**100.0**	**368.4**	242.7	100.0	406.0	(9.3)

The Company capitalized on its competitive edge of integrated operation of coal, power and coal chemical to increase the internal consumption of Shenhua coal. In the first half of 2014, the Company sold 43.0 million tonnes of coal to the internal power segment, representing a year-on-year increase of 7.8%, and sold 2.1 million tonnes of coal to the internal coal and chemical segment, representing a year-on-year increase of 5.0%.

The coal sales business of each mine area of the Group is mainly coordinated by Shenhua Trading Group, with the majority of the coal products sold by the Company being thermal coal. For details of the operations of the major subsidiaries of the coal segment, please refer to "Major subsidiaries and associated companies" in this chapter.

3. Coal mine production safety, energy saving and environmental protection

In the first half of 2014, the Company continued to improve its intrinsic safety system and arranged various safety inspections to rectify safety hazards. As a result, the fatality rate per million tonnes of raw coal production was 0.0118.

Upholding the philosophy of "producing environmental-friendly coal and constructing ecological mines", the Company has continued to keep up with its work on soil and water conservation, land reclamation and reforestation. As at the end of the reporting period, the balance of the Company's "accrued reclamation obligations" amounted to RMB2.036 billion, serving as a strong financial guarantee for ecological construction. In the first half of 2014, the Company's overall energy consumption for coal production was 2.16 kilograms of standard coal/tonne, decreased by 0.05 kilograms of standard coal/tonne as compared to that of the previous year.

4. Project progress

Conversion of exploration rights to mining rights of Guojiawan and Qinglongsi Mines is in the process of approval, and the mine construction works and engineering works of the coal mines are being advanced in an orderly manner. Exploration rights of Xinjie Taigemiao Mines are going through relevant administrative review and approval procedures. Shenhua Watermark Coal Project in Australia is going through environmental assessment and approval.

5. Coal resources

As at 30 June 2014, the Group had coal resources amounting to 24.812 billion tonnes and recoverable coal reserve amounting to 15.117 billion tonnes under the PRC Standard; the Group's marketable coal reserve amounted to 8.572 billion tonnes under the JORC Standard.

In the first half of 2014, the Company's exploration expenses[1] amounted to approximately RMB13 million (first half of 2013: RMB14 million (restated)), which was mainly attributable to the exploration expenses relating to the Watermark Coal Project in Australia.

In the first half of 2014, the Company's relevant capital expenditure of mining development and exploration amounted to approximately RMB2,588 million (first half of 2013: RMB3,843 million (restated)), which was mainly attributable to the exploitation expenses of Guojiawan, Qinglongsi and Huangyuchuan Mines as well as the expense arising from the acquisition of mining equipment.

The commercial coal of the Company mainly includes high quality thermal coal with low sulfur and medium to high calorific value. Characteristics of the commercial coal produced by the Company's major mines are as follows:

No.	**Mines**	**Major types of coal**	**Calorific value of major commercial coal products** *(kcal/kg)*	**Sulphur content**
1	Shendong Mines	Long flame coal/non-caking coal	>5,250	≤0.6%
2	Zhunge'er Mines	Long flame coal	>4,500	≤0.6%
3	Shengli Mines	Lignite	>3,200	≤0.8%
4	Baorixile Mines	Lignite	>3,600	≤0.8%
5	Baotou Mines	Long flame coal/non-caking coal	>4,500	≤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 mines 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 are incurred before the conclusion of feasibility study, represent the expenses related to exploration and evaluation of coal resources.

6. Operating results

(1) The operating results of the coal segment of the Group before elimination on consolidation in the first half of 2014 are as follows:

		First half of 2014	First half of 2013 (restated)	**Change (%)**	**Major reasons**
Revenue	RMB million	**103,566**	103,430	0.1	Decrease in sales price and sales volume of coal as well as increase in material trading revenue
Cost of sales	RMB million	**85,589**	80,251	6.7	Increase in purchasing cost of material trading and decrease in cost of coal purchased from third parties
Of which:					
1. Production cost of self-produced coal	RMB million	**19,562**	18,789	4.1	
2. Cost of coal purchased from third parties	RMB million	**26,324**	36,023	(26.9)	Decrease in sales volume and purchase price of coal purchased from third parties
Gross profit margin	%	**17.4**	22.4	Decreased by 5.0 percentage points	
Profit from operations	RMB million	**16,164**	21,126	(23.5)	
Profit margin	%	**15.6**	20.4	Decreased by 4.8 percentage points	

(2) Unit production cost of self-produced coal

In the first half of 2014, unit production cost of self-produced coal in the coal segment was RMB127.2/tonne (first half of 2013: RMB124.2/tonne (restated)), representing a year-on-year increase of 2.4%. The main reasons affecting the unit production cost are:

1. Costs of raw materials, fuel and power were RMB24.8/tonne (first half of 2013: RMB23.6/tonne (restated)), representing a year-on-year increase of 5.1%, mainly due to (1) the change in settlement method for materials consumed in mining engineering from being settled as mining engineering expense to material expense; and (2) the overall advancement of mine production lines in some open-cut mines, leading to the increased transportation distance and the growth in consumption of machinery accessories, fuel and power;

2. Personnel expenses were RMB14.2/tonne (first half of 2013: RMB14.2/tonne (restated)), which was flat as compared with that in the same period of last year;

3. Repairs and maintenance were RMB8.4/tonne (first half of 2013: RMB7.9/tonne (restated)), representing a year-on-year increase of 6.3%. The increase was mainly due to the increase in repairs of mining equipment and coal-washing and selecting equipment;

4. Depreciation and amortization was RMB19.3/tonne (first half of 2013: RMB18.0/tonne (restated)), representing a year-on-year increase of 7.2%, which was mainly due to the increase in fixed assets purchased using the specific reserve of simple production maintenance and production safety expenditures;

5. Other costs were RMB60.5/tonne (first half of 2013: RMB60.5/tonne (restated)), which were the same as that in the same period of last year. Other costs consist of the following three components: (1) expenses directly related to production, including maintenance and safety expenses, coal washing, selecting and processing expenses, and mining engineering expenses, etc., accounting for 56%; (2) auxiliary production expenses, accounting for 9%; (3) land acquisition and surface subsidence compensation, environmental protection expenses, fees levied by local government, etc., accounting for 35%.

(3) Cost of coal purchased from third parties

Coal purchased from third parties of the Company included coal purchased near its mines and along the railways, domestic trading coal, import and re-export trade.

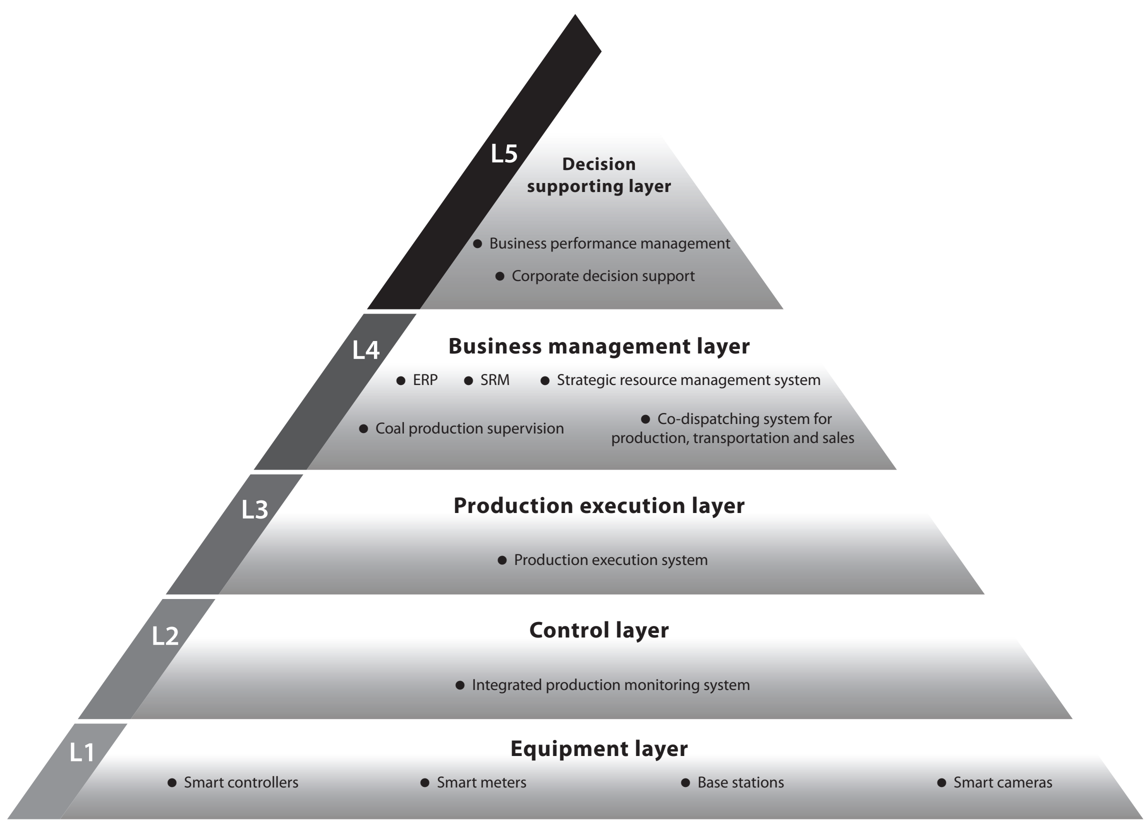
In the first half of 2014, costs of coal purchased from third parties were RMB26,324 million (first half of 2013: RMB36,023 million (restated)), representing a year-on-year decrease of 26.9%. This was mainly due to the following reasons: firstly, the sales volume of coal purchased from third parties amounted to 80.8 million tonnes (first half of 2013: 91.4 million tonnes (restated)) in the first half of the year, representing a year-on-year decrease of 11.6%, and coal purchased from third parties as a proportion of the total coal sales volume of the Company decreased to 34.4% from 37.7% (restated) in the same period of last year; and secondly, purchasing price of coal purchased from third parties decreased.

7. Overview of the "Digitalized Mine Project" of Jinjie Mine in Shendong Mines

The "Digitalized Mine Project" of Jinjie Mine in Shendong Mines, a digitalized mine model project (underground mine) constructed by China Shenhua, commenced construction in August 2012 and was put into operation at the end of 2013. Through optimal business processes, digitalized mines have fundamentally changed the traditional philosophy of mine management, realizing the transition of models of mine management from function-based to process-oriented, from business processing to analysis and decision support, and from extensive management to refined management and to intellectualized management.

After six months of practice, the project achieved sound effects in aspects including headcount downsizing and efficiency boosting, higher safety assurance and refined production scheduling. Based on preliminary estimation, the comprehensive single-well output of Jinjie Mine increased from 500,000 tonnes/unit • month to 530,000 tonnes/unit • month; comprehensive productivity increased from 114 tonnes/head/day to 123 tonnes/head/day; the number of coal mining workers decreased by 80.

Under the "Digitalized Mines" plan of China Shenhua, the Company will steadily promote the digitalized mine model in the newly constructed mines and the existing mines in operation.



Application architecture of digitalized mine

	Comparison in application	
Item	**Digitalized mine**	**Traditional mine**
Equipment layer	1. The 57,000 data control and collection points constitute a comprehensive information network for all-round detection and real-time collection; 2. Information technology system helps to consolidate the advanced management philosophy and methodology.	1. Non-systematic information collection methods; 2. Rely on learning from previous experiences to consolidate the management philosophy and methodology.
Control layer	1. All control systems are integrated onto a uniform platform; 2. The ground remote control system for underground wells has facilitated the automation-to-intelligence upgrade, allowing for unattended operation; 3. Through data analysis, the failure (accident) warning and rational equipment power on/off technologies help to improve safety assurance and equipment utilization rate.	1. Multiple systems; decentralized control; 2. Underground onsite direct control in most occasions; 3. Passive tracking of failure (accident).
Production execution layer	Production systems are integrated onto a uniform platform, where resources are rebalanced for scientific dispatching and optimal production scheduling. Refined production scheduling is hence achieved.	Decentralized production, scheduling, technology, safety and coal quality management systems.
Business management layer Decision support layer	The vertically connected management across three levels of mines, branches/subsidiaries and headquarters helps to provide data and information on a timely and accurate basis to ensure rational and responsive business analysis and decision-making.	1. A dispatching and commanding model heavily depending on reporting; 2. Rely on ex post facto management and empirical decisions of managers.

(II) Power segment

1. Business operations

In the first half of 2014, as the power segment of the Company implemented a series of marketing strategies, the gross power generation amounted to 106.52 billion kwh, representing a year-on-year increase of 1.0%. The total power output dispatch amounted to 99.38 billion kwh, representing a year-on-year increase of 1.1%. The Company placed priority on environmental protection and accelerated its desulphurization and denitrification of coal-fired generators. In terms of emissions results of sulphur dioxide and nitrogen oxide, the Company continues to lead the industry. The volume of Shenhua coal consumed was further increased to a total consumption of 39.5 million tonnes, accounting for 88.2% of the 44.8 million tonnes of coal consumed by the Group's power generation business in the first half of 2014, representing an increase of 2.2 percentage points compared with 86.0% of the same period of last year.

In the first half of 2014, the coal-fired generators of the Company remained steady in operation, with power generation and power output dispatch of 105.21 billion kwh and 98.10 billion kwh respectively. The average utilization hours amounted to 2,574 hours, 199 hours above the national average of 2,375 hours for thermal power plants during the same period. Eight units of generators of the Group obtained the title of Reliable Golden Units in the 2013 National Golden Units Assessment on Reliability of Coal-fired Generators, which was organized by the National Energy Administration.

Phase I of Shenhua Chongqing Wanzhou Port and Power Integration Project (2x1,000 MW) and Shenhua Hequ Low Calorific Value Coal Power Project in Shanxi (2x350 MW) had made steady progress in their construction. The Beijing Gas Thermal Power Project is scheduled for trial operation at the end of the year and the Luoyuanwan Power Plant Project in Fujian (2x1,000 MW) is undergoing pre-construction preparations.

2. Operating results

The operating results of the power segment of the Group before elimination on consolidation in the first half of 2014 are as follows:

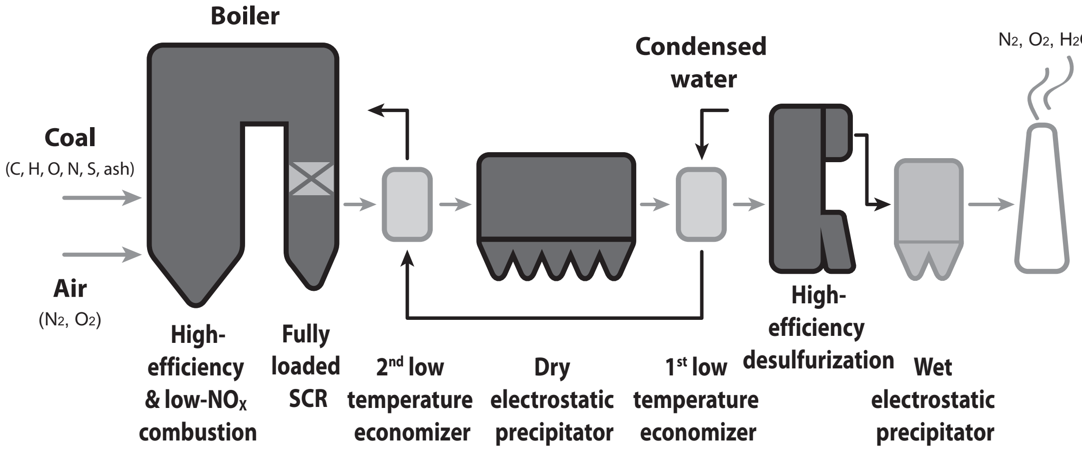
		First half of 2014	First half of 2013 (restated)	Change (%)	Major reasons
Revenue	RMB million	**37,074**	37,100	(0.1)	Decrease in power tariff
Cost of sales	RMB million	**25,927**	27,736	(6.5)	Decrease in coal price
Gross profit margin	%	**30.1**	25.2	Increased by 4.9 percentage points	
Profit from operations	RMB million	**10,030**	8,299	20.9	
Profit margin	%	**27.1**	22.4	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 results. In the first half of 2014, the unit cost of power output dispatch of the Company was RMB253.9/mwh (first half of 2013: RMB274.5/mwh (restated)), representing a year-on-year decrease of 7.5%. The average power tariff amounted to RMB360.0/mwh (first half of 2013: RMB365.4/mwh (restated)), representing a year-on-year decrease of 1.5%.

3. Overview of the "Near-zero Emission" Technology for Coal-fired Generators and its Implementation

To implement the air pollution control program, China Shenhua started its research on the "near-zero emission" technology on air pollutants from coal-fired generators in 2013. As at July 2014, the first "near-zero emission" coal-fired generator of the Company has commenced operation, and tasks will be deployed by the Company in accordance with the following principles in future: (1) ensuring that the emission of all air pollutants from coal-fired generators will meet the required national and local standards; (2) adopting the "near-zero emission" standards in principle for the coal-fired generators to be newly constructed in regions subject to national and local special emission limits; and (3) accelerating the technological upgrade for the existing coal-fired generators operated in Beijing, Tianjin and Hebei regions.

(1) Diagram of the "near-zero emission" technology route



Notes:

1. Economizer: the heating surface at convection flue gas pass of a boiler where feedwater is heated into saturated water at the drum pressure. Economizer can absorb heat of low-temperature flue gas and reduce its exhaust temperature.

2. Selective Catalytic Reduction (SCR): a chemical process through which reducing agents (such as NH_3, ammonia, urea) are used in conjunction with catalysts to "selectively" react with NO_X in flue gas, thus generating nontoxic and non-polluting N_2 and H_2O.

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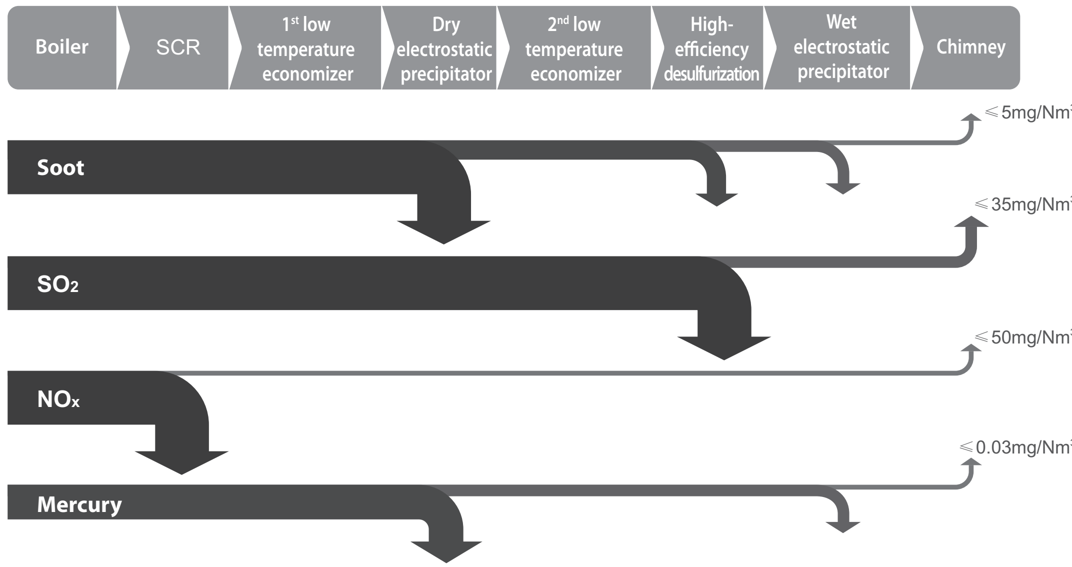
1. The information of the Standards is prepared and demonstrated by reference to Appendix III: Emission Standard of Air Pollutants for Thermal Power Plants of the "Notice on Seeking Comments on the National Environmental Protection Standards of the 'Emission Standard of Air Pollutants for Thermal Power Plants' (Second Draft for Comment)" (Huanbanhan [2011] No. 51) issued by the General Office of the Ministry of Environmental Protection of the PRC.
2. Air Pollutant Emission Standards on Thermal Power Plants (effective from 1 January 2012), published by the Ministry of Environmental Protection and the General Administration of Quality Supervision, Inspection and Quarantine of the PRC.
3. On 21 July 2014, generator no. 1 of Sanhe Power of China Shenhua passed the 168-day trial operation. An inspection report on soot, SO_2 and NO_X emission levels of the generator during the trial operation was issued by the provincial environmental monitoring center.

(2) Illustration of emission reduction of air pollutants in each step of the "near-zero emission" technology



Note:

"Nm^3" in the unit of emission measurement refers to gas volume at 0°C and under 1 standard atmospheric pressure (similarly hereinafter).

(3) Key indicators of the "near-zero emission" technology

At the end of July 2014, no. 1 generator of Sanhe Power of China Shenhua as upgraded by the "near-zero emission" technology, being the first of its kind under the "National Environmental Protection Renovation Demonstration Project for Coal-fired Generators" in areas of Beijing, Tianjin and Hebei, passed the 168-days trial operation. According to monitoring data in the trial operation period, the emission levels of its main air pollutants have met and outperformed the emission limits on air pollutants from gas-fired generators (see the figures in the table below). Currently, the generator is in smooth operation.

Comparison of air pollutant emission indicators (unit: mg/Nm^3)

No.	Air pollutant	U.S. New Source Performance Standards (NSPS, 2005)[1]	EU's "Directive on the Limitation of Emissions of Certain Pollutants into the Air from Large Combustion Plants (2001/80/EC)[1]	PRC's National Air Pollutant Emission Standards on Thermal Power Plants[2] (GB13223-2011)		Emission level of no. 1 generator (upgraded) of Sanhe Power of China Shenhua[3]	Emission level of no. 4 generator (newly constructed) of Zhoushan Power of Shenhua Group
				Standard limits on coal-fired power plants in key areas	Standard limits on gas-fired power plants		
1	Soot	≤20	≤30 (above 100MW)	≤20	≤5	5	3
2	Sulfur dioxide (SO_2)	≤184	≤200 (above 300MW)	≤50	≤35	9	3
3	Nitrogen oxides (NO_X)	≤135	≤200 (above 300MW)	≤100	≤50	35	23
4	Mercury and its compounds	≤0.02	≤0.03	≤0.03	/	~0.01	~0.01

4. Estimated cost of “near-zero emission” technological upgrade

Taking the “near-zero emission” upgrade for no. 1 generator of Sanhe Power for example, assuming annual operation of 5,500 hours and equipment service life of 15 years, the additional operating cost from compliance with the emission standard to “near-zero emission“ is approximately RMB0.01/kwh.

The estimated cost above has taken into account factors such as additional equipment expenses of the “near-zero emission” upgrade for coal-fired generators, as well as the cost reduction due to lower pollution discharge fee (not taking into account of the marginal benefit in energy-efficient scheduling due to less emission).

(III) Railway Segment

1. Business operations

In the first half of 2014, the Company improved transporting efficiency through optimized transportation arrangement, increased the number of trains with capacity of ten thousand tonnes, and put newly-acquired locomotives and trains into operation through coordination, thus ensuring the realization of transportation capacity and the smooth operations of the integrated business model. In the first half of 2014, the transportation turnover of self-owned railways of the Group was 109.5 billion tonne km, representing a year-on-year increase of 7.7%, which accounted for 83.7% of the total turnover, representing an increase of 1.7 percentage points as compared to that in the same period of last year.

The Company rolled out additional trains with capacity of ten thousand tonnes for Baoshen and Shenshuo Railways to improve transportation capacity, ensuring the outbound coal transportation in the Shendong Mines. The Company sought to unleash the potential transportation capacity of Shuohuang Railway, and continuously improved the transportation capacity of the three south-bound transportation businesses and reverse transportation. The newly constructed Zhunchi Railway is expected to be fully completed in the fourth quarter of 2014, and preliminary works for Huangda Railway are progressing in an orderly manner.

2. Operating results

The operating results of the railway segment of the Group before elimination on consolidation in the first half of 2014 are as follows:

		First half of 2014	First half of 2013 (restated)	**Percentage change** (%)	**Main reasons for changes**
Revenue	RMB million	**15,033**	14,417	4.3	Increase in turnover of railway transportation
Cost of sales	RMB million	**6,799**	6,939	(2.0)	Input tax related to materials, fuel and power was no longer included in costs after the replacement of business tax with value-added tax in the railway transportation industry, and decrease in related taxes and surcharges
Gross profit margin	%	**54.8**	51.9	Increased by 2.9 percentage points	
Profit from operations	RMB million	**7,746**	6,945	11.5	
Profit margin	%	**51.5**	48.2	Increased by 3.3 percentage points	

In the first half of 2014, the revenue generated from the internal transportation services provided by the railway segment for the Group amounted to RMB13,467 million (first half of 2013: RMB12,868 million (restated)), representing a year-on-year increase of 4.7%, accounting for 89.6% of the revenue of the railway segment. Certain railway lines of the Group utilized their spare transportation capacity to provide transportation services to third parties and generated transportation revenue.

In the first half of 2014, the unit transportation cost of the railway segment was RMB0.059/tonne km (first half of 2013: RMB0.062/tonne km (restated)), representing a year-on-year decrease of 4.8%. The decrease was mainly due to the replacement of business tax with value-added tax, leading to a decrease in related cost of sales, taxes and surcharges, and the diluted unit transportation cost as a result of the increase in railway transportation turnover.

(IV) Port Segment

1. Business operations

In the first half of 2014, faced with the impact of high-level coal inventory, the port segment strived to enhance its stacking capacity and strengthen its planning and coordination with other segments to effectively relieve the inventory pressure. Huanghua Port fully capitalized on capacity expansion projects, completed seaborne coal of 67.8 million tonnes, representing a year-on-year increase of 11.0%. Tianjin Coal Dock strengthened production safety and transportation coordination, completed seaborne coal of 17.3 million tonnes, representing a year-on-year increase of 14.6%. In the first half of the year, the seaborne coal sales through the self-owned ports of the Company accounted for 73.5% of the total seaborne coal sales, representing an increase of 4.9 percentage points as compared to 68.6% of the same period of last year.

Phase IV Project of Huanghua Port was approved by NDRC, Phase II Project of Tianjin Coal Dock progressed with order, and Phase I Construction Project of Shenhua Coal Storage and Transportation Center in Gaolan Port Area of Zhuhai Port is undergoing trial operation.

2. Operating results

The operating results of the port segment of the Group before elimination on consolidation in the first half of 2014 are as follows:

		First half of 2014	First half of 2013 (restated)	**Change (%)**	**Main reasons for changes**
Revenue	RMB million	**2,058**	1,809	13.8	Increase in loading volume of ports
Cost of sales	RMB million	**972**	900	8.0	Increase in loading volume of ports; and new ports and port capacity expansion projects were put into operation, leading to increase in depreciation and amortization costs
Gross profit margin	%	**52.8**	50.2	Increased by 2.6 percentage points	
Profit from operations	RMB million	**841**	752	11.8	
Profit margin	%	**40.9**	41.6	Decreased by 0.7 percentage point	

In the first half of 2014, the revenue generated from the internal transportation services provided by the port segment for the Group amounted to RMB1,906 million (first half of 2013: RMB1,728 million (restated)), representing a year-on-year increase of 10.3% and accounting for 92.6% of the revenue of the port segment. Cost of internal transportation services provided for the Group amounted to RMB869 million.

(V) *Shipping Segment*

1. Business operations

In the first half of 2014, faced with the unfavorable situation where demand for coal was low and transportation capacity was in excess, the Shipping Company leveraged on the Group's internal market and maintained a steady development by increasing allocation of self-owned port and power plant capacity, adopting an innovative operational management model and increasing efforts to expand external markets. In the first half of 2014, shipping volume amounted to 45.5 million tonnes, representing a year-on-year increase of 5.1%. Shipment turnover amounted to 38.2 billion tonne nautical miles, representing a year-on-year decrease of 11.8%.

2. Operating results

The operating results of the shipping segment of the Group before elimination on consolidation in the first half of 2014 are as follows:

		First half of 2014	First half of 2013 (restated)	**Change (%)**	**Main reasons for changes**
Revenue	RMB million	**1,745**	1,770	(1.4)	Decrease in freight rate and shipment turnover
Cost of sales	RMB million	**1,452**	1,666	(12.8)	Decrease in shipment turnover and the rental price of ships
Gross profit margin	%	**16.8**	5.9	Increased by 10.9 percentage points	
Profit from operations	RMB million	**244**	67	264.2	
Profit margin	%	**14.0**	3.8	Increased by 10.2 percentage points	

In the first half of 2014, the unit transportation cost of the shipping segment was RMB0.038/tonne nautical mile (first half of 2013: RMB0.038/tonne nautical mile (restated)), remaining the same as that of the same period of last year.

(VI) *Coal Chemical Segment*

1. Business operations

In the first half of 2014, the production facilities of Baotou Coal Chemical Company were operated in a safe, stable and high-capacity manner and produced polyethylene products of 145.8 thousand tonnes and polypropylene products of 148.9 thousand tonnes. With total sales of polyethylene products reaching 152.5 thousand tonnes and polypropylene products of 155.0 thousand tonnes.

Baotou Coal Chemical Company's coal-to-olefins project has passed the national completion verification in June. The levels of water consumption and integrated power consumption of the olefin products dropped year-on-year.

	First half of 2014		First half of 2013		**Year-on-year change**	
	Sales volume	**Price**	Sales volume	Price	**Sales volume**	**Price**
	Thousand tonnes	***RMB/tonne***	*Thousand tonnes*	*RMB/tonne*	*%*	*%*
Polyethylene	**152.5**	**9,053.7**	133.8	8,556.5	14.0	5.8
Polypropylene	**155.0**	**8,766.5**	135.6	8,379.4	14.3	4.6

2. Operating results

(1) The operating results of the coal chemical segment of the Group before elimination on consolidation in the first half of 2014 are as follows:

		First half of 2014	First half of 2013 (Restated)	**Change (%)**	**Main reasons for changes**
Revenue	RMB million	3,430	2,895	18.5	Increase in sales volume and sales price
Cost of sales	RMB million	2,362	2,102	12.4	Increase in production volume
Gross profit margin	%	31.1	27.4	Increased by 3.7 percentage points	
Profit from operations	RMB million	980	728	34.6	
Profit margin	%	28.6	25.1	Increased by 3.5 percentage points	

(2) Unit production cost

	First half of 2014		First half of 2013		**Year-on-year change**	
	Production volume	**Unit production cost**	Production volume	Unit production cost	**Production volume**	**Unit production cost**
	Thousand tonnes	***RMB/tonne***	*Thousand tonnes*	*RMB/tonne*	*%*	*%*
Polyethylene	**145.8**	**5,891.2**	130.1	5,981.9	12.1	(1.5)
Polypropylene	**148.9**	**5,685.1**	132.9	5,737.3	12.0	(0.9)

In the first half of 2014, the unit production costs of polyethylene and polypropylene products were RMB5,891.2/tonne and RMB5,685.1/tonne respectively, representing a year-on-year decrease of 1.5% and 0.9% respectively. The decrease was mainly due to the diluted unit production cost as a result of the increase in production volume.

Changes in Core Competitiveness

The Company is principally engaged in the production and sales of coal, power and coal chemical related products, as well as railway, port and shipping transportation and other businesses. The Company also has a professional management team, technical staff, facilities, patents and land use rights, all of which are relevant to the businesses engaged by the Company. The core competitiveness of the Company are manifested mainly in: (1) deepened cooperation, shared resources, synergy, integration of coal, power, railway, port, shipping and coal chemical into unified operation chain with low-cost operation; (2) 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, heavy-loaded railway transportation and coal chemical 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 executed 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 2014	Plan for 2014		Percentage of accomplishment to the plan (after adjustment)
		Before adjustment	After adjustment	
	(RMB100 million)	*(RMB100 million)*	*(RMB100 million)*	*(%)*
Coal segment	**29.45**	69.6	59.1	49.8
Power segment	**68.91**	195.0	185.0	37.2
Transportation segment	**56.41**	226.6	208.4	27.1
Of which: Railway	**45.96**	177.8	163.6	28.1
Port	**4.89**	39.0	28.4	17.2
Shipping	**5.56**	9.8	16.4	33.9
Coal chemical business	**1.02**	10.3	2.9	35.2
Strategic reserve and others	**3.76**	2.3	30.5	12.3
Total	**159.55**	503.8	485.9	32.8

Note: Due to factors including changes in the operating environment and adjustments to the progress of project approval, and after consideration and approval by the 46th meeting of the second session of the board of directors of the Company held on 22 August 2014, the Company made adjustments to the capital expenditure plan in 2014.

In the first half of 2014, the capital expenditures of the Company amounted to RMB15.955 billion, which were mainly used in the Shenhua Hequ Power Project Fueled by Low Calorific Value Coal, Chongqing Wanzhou Port and Power Integration Project, acquisition of mining equipment and railway locomotives and Huanghua Port Locomotive and Train Inspection and Repair Centre Project, etc. In the second half of the year, the Company will accelerate the construction of key projects in a systematic way and form a more rationalized business layout.

The current plans of the Company regarding capital expenditure in 2014 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 its capital expenditure 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

During the first half of 2014, Chinese government focused on the improvement of the quality and efficiency of economic growth to rationally formulate an overall plan on steady growth, in-depth reform, structural adjustment and well-being of the general public, stabilizing national economy as a whole. In the first half of the year, the gross domestic product (GDP) of China grew by 7.4% year-on-year, representing a decrease of 0.2 percentage point from the same period last year; and consumer price index (CPI) recorded a year-on-year increase of 2.3%, a slowdown of 0.1 percentage point from the same period last year.

Looking to the second half of the year, the Chinese government will adhere to the key note of "making progress while maintaining stability" to maintain a stable economic momentum and further vitalize the market mechanism to ensure the annual economic growth target at 7.5%. Stability in macroeconomic development will be conducive to stabilize the demand for coal and other types of energy.

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 for updating the information or correcting any subsequent error that may appear. The opinions, estimates and other data set out herein can be amended or withdrawn without further notice. The data contained in this section 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 for the first half of 2014

The first half of 2014 witnessed an overall oversupply and declining coal prices in domestic coal market, due to factors such as slower macroeconomic growth and excessive coal production capacity. As at the end of June 2014, the Bohai Bay Thermal Coal Price Index (5,500 kcal/kg) dropped to RMB528/tonne, representing a decrease of 13.4% from RMB610/tonne at the beginning of the year.

The falling coal prices resulted in significantly lower profitability of coal enterprises, coupled with production suspension or reduction for certain coal mines and hence a decline in total coal production. In the first half of 2014, China produced a total of 1.816 billion tonnes of raw coal, representing a year-on-year decrease of 1.8%.

In the first half of 2014, China imported 160 million tonnes of coal, representing a year-on-year increase of 0.9%, which was 14.1 percentage points less than that of the same period last year.

The coal consumption of major coal-consuming industries declined, mainly as a result of weak macroeconomic dynamics and energy structural adjustment. In the first half of 2014, 1.79 billion tonnes of coal was consumed in China, representing a year-on-year decrease of 3.7%.

In the first half of 2014, coal outbound transportation through railway continued to grow on the back of the increasing railway transportation capacity. Coal transportation volume through railways of China was 1.147 billion tonnes, representing a year-on-year increase of 0.7%. Coal outbound shipment through major ports in northern areas was 316 million tonnes, representing a year-on-year increase of 8.1%.

In the first half of 2014, inventories of coal products in China ranged at high levels, mainly attributable to the depressed coal demand. As at 30 June 2014, coal inventories at major ports and coal enterprises in China reached 52.64 million and 99.00 million tonnes, respectively, representing an increase of 56% and 39% as compared with that in the beginning of the year.

Prospect for the second half of 2014

Given the falling coal prices and lower profitability across coal enterprises, certain small and medium coal mines are expected to continue to cut their production while large coal enterprises should maintain a reasonable output in the second half of 2014. Thus, there should be no substantial increase in coal supply.

Looking into the second half of the year, coal import is expected to stay at a considerable scale due to the price competitiveness of Indonesia and other major coal exporters.

As China economy is expected to stabilize slowly, a recovery in coal demand is expected in the second half of 2014, driven by seasonal factors such as summer demand peaks and winter heating season. However, domestic coal market will still be characterized by an oversupply in the second half of the year due to coal overcapacity lingering in the PRC.

2. Thermal coal market in Asia Pacific region

Review for the first half of 2014

The global coal market saw an oversupply during the first half of 2014, dragged by international economic conditions and the depressed demand from traditional coal consuming countries. The spot price of Australian BJ thermal coal decreased from US$86.35/tonne at the beginning of 2014 to US$70.90/tonne at the end of June.

In the first half of 2014, Australia exported a total of 186 million tonnes of coal, representing a year-on-year increase of 10.16%. Indonesia exported 158 million tonnes of coal, representing a year-on-year increase of 6.8%.

The coal demand growth in the Asia Pacific region was mainly contributed by China and India. In the first half of 2014, India imported 87 million tonnes of thermal coal, representing a year-on-year growth of 11.6%. Japan and South Korea posted slightly increased coal import. Japan imported 92 million tonnes of coal, representing a year-on-year increase of 0.6%. South Korea imported 66 million tonnes of coal, representing a year-on-year increase of 4.3%.

Prospect for the second half of 2014

The coal supply in the Asia Pacific region in the second half is expected to remain stable. Major suppliers will continue to be Indonesia and Australia. The volume of coal from Russia, Mongolia Republic and other countries may increase.

In the second half of 2014, China and India will remain to be major coal consuming countries. India is expected to increase its coal import to address the shortage in supply. Coal consumption in countries such as Japan and South Korea is expected to remain steady in general.

Looking ahead into the second half of 2014, there should be no substantial increase in global coal demand due to the slow recovery of global economy and the gradual adjustment to energy structure. Thermal coal price is expected to remain at lows, given the slim possibility for a quick turnaround from the prolonged oversupply in international coal market.

III. Market environment of the power industry

Review for the first half of 2014

In the first half of 2014, while power consumption continued to grow steadily, power supply was generally sufficient to meet the demand in China. Power consumption in China was 2,627.6 billion kwh, representing a year-on-year growth of 5.3% which was 0.2 percentage point faster than the same period last year. The power consumption of the primary industry decreased by 4.6% year-on-year; the power consumption of the secondary industry saw a year-on-year growth of 5.1%; and the power consumption of the tertiary industry and urban and rural residents saw a year-on-year growth of 6.9% and 6.6% respectively, both registering a slowdown.

In the first half of 2014, thermal power generation from large-scale power plants in the PRC was 2,099.5 billion kwh, representing a year-on-year growth of 4.7%, which was 2.1 percentage points higher than that of the same period last year. Hydroelectric power generation from large-scale power plants in the PRC was 371.3 billion kwh, representing a year-on-year growth of 9.7%. The increase in hydropower output posed a constraint to the growth in thermal coal demand.

In the first half of 2014, the utilization hours of various power equipment dropped year-on-year due to the increase in installed capacity and the slow growth in power demand. The utilization hours of thermal power equipment reached 2,375 hours, representing a year-on-year decrease of 37 hours.

As at the end of June 2014, the nationwide capacity of power generation equipment of power plants with capacity of 6,000 kw and above reached 12,512.2 billion kw, representing a year-on-year growth of 9.4%, of which the thermal power installed capacity was 8,788.5 billion kw, representing a year-on-year growth of 5.4%. Power generation through hydropower and new energies grew rapidly, and hydropower installed capacity reached 253.72 million kw, representing a year-on-year increase of 14.4%. Installed capacity of wind power and nuclear power increased year-on-year by 22.6% and 21.7% respectively, both significantly higher than the national growth in total installed capacity.

Prospect for the second half of 2014

Looking into the second half of 2014, considering the steady economic growth and the regulation over total energy consumption and the national campaign of air pollution control in China, power consumption in China should maintain stable or slightly increase through the second half of the year.

Clean energy will maintain a sound growth momentum. It is expected that hydropower, nuclear power and wind power will stay in the fast track in the second half of 2014.

A recovery in the utilization hours of thermal power generators is expected for the second half of 2014, mainly attributable to the gradually decreasing thermal energy investment, the slowing growth in the number of generators commencing operation and a rebound in residential power demand expected in the third quarter.

Amid an overall equilibrium between power supply and demand, the power consumption in China is expected to maintain stable in the second half of 2014.

Status of accomplishment of 2014 business targets

Item		Accomplishment in the first half of 2014	Target of 2014 (before adjustment)	Target of 2014 Note (after adjustment)
Commercial coal production	million tonnes	155.0	318.1	305.4
Coal sales	million tonnes	234.6	514.8	444.4
Power output dispatch	billion kwh	99.38	210.18	200.00
Revenue	RMB billion	129.197	274.1	245.7
Cost of sales	RMB billion	89.101	207.7	181.0
Total of selling, general and administrative expenses and net finance costs	RMB billion	5.632	13.5	13.5

Note:

1. Due to factors including changes in the operating environment, and after consideration and approval by the 46th meeting of the second session of the board of directors of the Company held on 22 August 2014, the Company made adjustments to the business targets for 2014.

2. Net finance costs = Finance costs - Interest income

3. 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 investment risks.

Due to factors such as demand for coal, thermal electricity and changes in coal price, the realization of the above business targets are subject to a certain extent of uncertainties. Investors should pay attention to announcements made by the Company in a timely manner.

IV. SIGNIFICANT MATTERS

Purchase, sale or redemption of securities of the Company

For the six months ended 30 June 2014, 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 2014.

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 2014.

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 2014.

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 18 August 2014, the Audit Committee reviewed the Company's interim financial report for the six months ended 30 June 2014 and approved submission of the interim financial report to the board for approval.

Subsequent event

After 30 June 2014, 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	Shenhua Trading Group	Shenhua Trading Group Limited
6	Baotou Coal Chemical Company	Shenhua Baotou Coal Chemical Co., Ltd.
7	Shipping Company	Shenhua Zhonghai Shipping Co., Ltd.
8	Shenhua Finance Company	Shenhua Finance Co., Ltd.
9	EMM Indonesia	PT.GH EMM INDONESIA
10	Sanhe Power	Sanhe Power Co., Ltd.
11	JORC	Australasian Code for Reporting of Mineral Resources and Ore Reserves sets out the standards, recommendations and guidelines for public reporting in Australasia of exploration results, mineral resources and ore reserves, a widely accepted code for reserve reporting purpose
12	NDRC	National Development and Reform Commission of the People's Republic of China

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 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, 22 August 2014

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