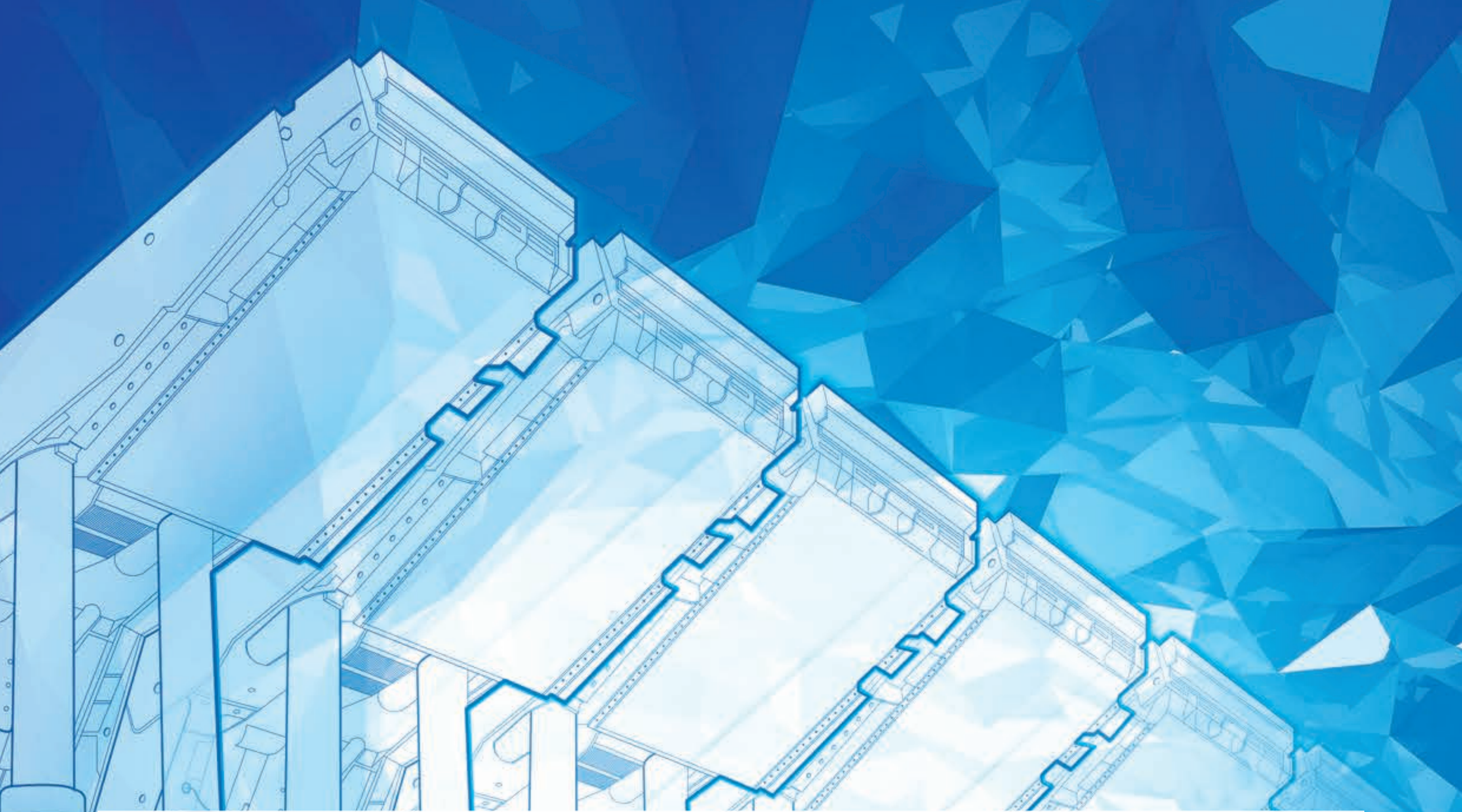
中国神华能源股份有限公司
CHINA SHENHUA ENERGY COMPANY LIMITED

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

Stock Code: 01088

Focus on Core Coal Business, Strengthen Synergistic Innovations

2018 Interim Report



Important Notice

I. The board of directors, supervisory committee and directors, supervisors and senior management of the Company warrant that this interim report does not contain any misrepresentations, misleading statements or material omissions, and are jointly and severally liable for the authenticity, accuracy and completeness of the information contained in this report.

II. This report was approved at the twelfth meeting of the fourth session of the Board of the Company. Six out of ten eligible directors attended the meeting in person. Gao Song being a Director could not attend the meeting due to business engagement, and Li Dong being a Director acted as the proxy of him to attend the meeting and voted on behalf of him; Mi Shuhua being a Director could not attend the meeting due to business engagement, and Ling Wen being a Director acted as the proxy of him to attend the meeting and voted on behalf of him; Zhao Jibin being a Director could not attend the meeting due to business engagement, and Li Dong being a Director acted as the proxy of him to attend the meeting and voted on behalf of him; Peng Suping being a Director could not attend the meeting due to business engagement, and Jiang Bo being a Director acted as the proxy of him to attend the meeting and voted on behalf of him.

III. The interim financial statements in this report is unaudited. Deloitte Touche Tohmatsu has issued a report on the review of the interim financial statements for 2018 prepared under the International Financial Reporting Standards.

IV. Ling Wen, Chairman of the Company, Zhang Kehui, Chief Financial Officer, and Ban Jun, person-in-charge of the accounting department, warrant the authenticity, accuracy and completeness of the financial report contained in this interim report.

V. Profit distribution plan or reserve funds capitalisation plan for the reporting period considered by the board of directors: not applicable

VI. Disclaimer of forward-looking statements

The forward-looking statements in this report made on the basis of subjective assumptions and judgments on future policies and economic conditions, which are subject to risks, uncertainties and assumptions, and may differ materially from the actual outcome. Such statements do not constitute actual commitments to investors. Investors should be aware that undue reliance on or use of such information may lead to risks of investment.

VII. Are there any situations of non-operating appropriation of funds by controlling shareholder(s) and its related parties? No

VIII. Are there any situations of violation of decision-making procedures for external guarantee provision? No

IX. Warning on Major Risks:

Investors please note that the Company has disclosed risks including market competition, environmental protection and overseas operation, etc. in the section headed "Discussion and Analysis on Operation Results".

Cover Photo: 8.8-meter ultra-mining height intelligent working face at Shangwan Mine of Shendong Mines

Contents

Section I Definitions

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

China Shenhua/the Company	China Shenhua Energy Company Limited
The Group	The Company and its subsidiaries
China Energy/Shenhua Group Corporation	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the new name of Shenhua Group Corporation Limited (神華集團有限責任公司)
China Energy Group/ Shenhua Group	China Energy and its subsidiaries (excluding the Group)
China Guodian	China Guodian Group Co., Ltd. (中國國電集團有限公司)
Guodian Group	China Guodian and its subsidiaries
GD Power	GD Power Development Co., Ltd.
Shendong Coal Corporation	Shenhua Shendong Coal Group Co., Ltd.
Shendong Power Company	Shenhua Shendong Power Co., Ltd.
Zhunge'er Energy Company	Shenhua Zhunge'er Energy Co., Ltd.
Shuohuang Railway Development Company	Shuohuang Railway Development Co., Ltd.
Railway Transportation Company	Shenhua Railway Transportation Co., Ltd.
Shenhua Trading Group	Shenhua Trading Group Limited
Huanghua Harbour Administration Company	Shenhua Huanghua Harbour Administration Co., Ltd.
Baotou Energy Company	Shenhua Baotou Energy Co., Ltd.
Baotou Coal Chemical Company	Shenhua Baotou Coal Chemical Co., Ltd.
Shenbao Energy Company	Shenhua Baorixile Energy Co., Ltd.
Shenhua Zhuhai Coal Dock	Shenhua Yudean Zhuhai Port Coal Dock Co., Ltd.
Overseas Company	China Shenhua Overseas Development & Investment Co., Ltd.
Yu Shen Energy Company	Yulin Shenhua Energy Co., Ltd.
Xinjie Energy Company	Shenhua Xinjie Energy Co., Ltd.
Shenwan Energy Company	Shenwan Energy Company Limited

Section I Definitions (Continued)

Fujian Energy Company	Shenhua Fujian Energy Co., Ltd.
Shenhua Finance Company	Shenhua Finance Co., Ltd.
EMM Indonesia	PT.GH EMM INDONESIA
Panshan Power	Tianjin Guohua Panshan Power Generation Co., Ltd.
Sanhe Power	Sanhe Power Co., Ltd.
Guohua Zhunge'er	Inner Mongolia Guohua Zhunge'er Power Generation Co., Ltd.
Zhunge'er Power	Power-generating division controlled and operated by Zhunge'er Energy Company
Zheneng Power	Zhejiang Guohua Zheneng Power Generation Co., Ltd.
Shenmu Power	CLP Guohua Shenmu Power Co., Ltd.
Taishan Power	Guangdong Guohua Yudean Taishan Power Co., Ltd.
Cangdong Power	Hebei Guohua Cangdong Power Co., Ltd.
Suizhong Power	Suizhong Power Co., Ltd.
Jinjie Energy	Shaanxi Guohua Jinjie Energy Co., Ltd.
Dingzhou Power	Hebei Guohua Dingzhou Power Generation Co., Ltd.
Guohua Hulunbei'er Power	Inner Mongolia Guohua Hulunbei'er Power Generation Co., Ltd.
Taicang Power	Guohua Taicang Power Generation Co., Ltd.
Mengjin Power	Shenhua Guohua Mengjin Power Generation Co., Ltd.
Yuyao Power	Zhejiang Guohua Yuyao Gas-fired Power Co., Ltd.
Jiujiang Power	Shenhua Guohua Jiujiang Power Co., Ltd.
Zhuhai Wind Energy	Zhuhai Guohua Huidafeng Wind Energy Development Co., Ltd.
Huizhou Thermal	Guohua Huizhou Thermal Power Branch of the Company
Ningdong Power	Ningxia Guohua Ningdong Power Generation Co., Ltd.
Xuzhou Power	Guohua Xuzhou Power Generation Company Limited
Zhoushan Power	Shenhua Guohua (Zhoushan) Power Generation Co., Ltd.

Section I Definitions (Continued)

Beijing Gas-fired Power	Shenhua Guohua (Beijing) Gas-fired Power Co., Ltd.
Shouguang Power	Shenhua Guohua Shouguang Power Generation Company Limited
Liuzhou Power	Shenhua Guohua Guangtou (Liuzhou) Power Generation Co., Ltd.
Guohua Ningdong	Shenhua Ningxia Guohua Ningdong Power Generation Co., Ltd.
Wanzhou Port Power	Shenhua Shendong Power Chongqing Wanzhou Port and Power Co., Ltd.
Fuping Thermal Power	Fuping Thermal Power Plant of Shenhua Shendong Power Co., Ltd.
Shenhua Finance Lease Company	Shenhua (Tianjin) Finance Lease Co., Ltd.
Jawa Company	Shenhua Guohua (Indonesia) Jawa Power Generation Co., Ltd.
JORC	Australasian Code for Reporting of Mineral Resources and Ore Reserves
Shanghai Stock Exchange	Shanghai Stock Exchange
Hong Kong Stock Exchange or Stock Exchange	The Stock Exchange of Hong Kong Limited
Shanghai Listing Rules	Rules Governing the Listing of Stocks on Shanghai Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Accounting Standards for Business Enterprises	the latest Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and the related application guidance, interpretations and other related requirements
International Financial Reporting Standards	International Financial Reporting Standards issued by the International Accounting Standards Committee
Articles of Association	Articles of Association of China Shenhua Energy Company Limited
EBITDA	Profit for the period + net finance costs + income tax + depreciation and amortisation – share of results of associates
Total debt to total equity ratio	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
RMB	Renminbi unless otherwise specified

Section II Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

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

II. CONTACTS AND CONTACT DETAILS

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

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

III. PARTICULARS

Registered Address of the Company	22 Andingmen Xibinhe Road, Dongcheng District, Beijing
Postal Code of Registered Address of the Company	100011
Office Address of the Company	22 Andingmen Xibinhe Road, Dongcheng District, Beijing
Postal Code of Office Address of the Company	100011
Company Website	http：//www.csec.com or http：//www.shenhuachina.com
E -mail	ir@chnenergy.com.cn

Section II Company Profile and Major Financial Indicators (Continued)

IV. INFORMATION DISCLOSURE AND PLACE FOR DOCUMENT INSPECTION

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

V. BASIC INFORMATION ON SHARES

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

VI. OTHER INFORMATION

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

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

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY

	Unit	**In the first half of 2018**	In the first half of 2017	Change %
Revenue	RMB million	127,380	120,518	5.7
Profit for the period	RMB million	29,887	30,839	(3.1)
Profit for the period attributable to equity holders of the Company	RMB million	24,520	26,298	(6.8)
Basic earnings per share	RMB/share	1.233	1.322	(6.8)
Net cash generated from operating activities	RMB million	31,937	47,637	(33.0)
Net cash generated from operating activities excluding the effect from Shenhua Finance Company	RMB million	35,048	44,653	(21.5)

	Unit	**As at 30 June 2018**	As at 31 December 2017	Change %
Total assets	RMB million	596,574	571,602	4.4
Total liabilities	RMB million	205,923	192,497	7.0
Total equity	RMB million	390,651	379,105	3.0
Equity attributable to equity holders of the Company	RMB million	312,014	305,541	2.1
Total share capital at the end of the period	RMB million	19,890	19,890	0

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

Unit: RMB million

	Net profit attributable to equity holders of the Company		Net assets attributable to equity holders of the Company	
	In the first half of 2018	In the first half of 2017	**As at 30 June 2018**	As at 31 December 2017
Under China Accounting Standards for Business Enterprises	**22,977**	24,315	**308,157**	301,487
Adjustment: Simple production maintenance, safety production and other related expenditures	**1,543**	1,983	**3,857**	4,054
Under International Financial Reporting Standards	**24,520**	26,298	**312,014**	305,541

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

Section III Business Overview

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

China Shenhua Energy Company Limited was established in Beijing in November 2004 and was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June 2005 and October 2007, respectively.

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

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

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

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

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

As of 30 June 2018, the Group's total assets amounted to RMB596,574 million, representing an increase of 4.4% as compared with that at the end of 2017, and the equity attributable to equity holders of the Company amounted to RMB312,014 million, representing an increase of 2.1% as compared with that at the end of 2017. The total offshore assets of the Group (including Hong Kong, Macau and Taiwan) amounted to RMB22,953 million, representing 3.8% to total assets, which are mainly composed of the assets from USD bonds issued in Hong Kong, PRC, and coal mine and power generation assets in Australia and Indonesia.

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

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

The core competitiveness of the Group mainly includes: (1) the vertical integration operation model of coal, power, railway, port and shipping operations; (2) premium and abundant coal resources; (3) a management team with the dedication to the principal business of the Company and an advanced operation philosophy; (4) leading industrial technologies and technological innovation capabilities in China and overseas in areas including coal mining, production safety, clean coal-fired power generation, heavy-loaded railway transportation and coal-to-olefins.

Section IV Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am delighted to present the results of the first half of 2018 of China Shenhua.

The year 2018 marks the first year of implementing the spirit of the 19th CPC National Congress. It is a crucial year for the success in building a moderately prosperous society in all aspects and bridging the past and the future in implementing the 13th Five-Year Plan. Led by The Thought on Socialism with Chinese Characteristics in a New Era proposed by Xi Jinping, the Chinese government has intensified the supply-side structural reform and pushed forward measures on structure optimisation and quality enhancement. In the first half of the year, the macro-economy of the PRC maintained a steady growth with favourable momentum, and the supply and demand in the coal market of the PRC were balanced in general. Supply was tight in certain regions and seasons with prices fluctuated in a reasonable range. The cumulative growth rate of the total power consumption of the whole society and the average utilisation hours of thermal power equipment both recorded a year-on-year increase, with power generation recording an obvious rebound as compared with the same period last year.

China Shenhua organised and coordinated all works by adhering to the leadership of the Party and strengthening the building of the Party, thereby getting off to a good start for both production and operation at the historic high interval. In the first half of the year, the Company recorded revenue of RMB127.38 billion, representing a year-on-year increase of 5.7%; profit for the period of RMB29.89 billion and profit for the period attributable to equity holders of the Company of RMB24.52 billion, representing a year-on-year decrease of 3.1% and 6.8%, respectively. As calculated by the consolidated operating profits before amortisation under the International Financial Reporting Standards, the Company recorded RMB23,250 million for coal business, RMB5,393 million for power business and RMB10,923 million for transportation business in the first half of the year, and the operating profits for coal, power and transportation businesses accounted for 58%, 14% and 27%, respectively. The high efficiency and synergy created in operation among the three major segments effectively enhanced the adaptability and competitiveness of the Company's business structure.

As at 30 June 2018, the total market capitalisation of China Shenhua reached USD57.7 billion, ranking the first among all listed coal companies worldwide and the fifth among all listed integrated mining companies globally. International credit rating agencies, Moody's and Fitch, maintained the sovereign rating of the international credit rating of China Shenhua.

IN THE FIRST HALF OF 2018: STRENGTHENED STRATEGIC LEADERSHIP, OPTIMISED OPERATING ORGANISATION, REINFORCED MARKET EXPANSION AND GOT OFF TO A GOOD START

Strengthened and Integrated Party Building into Corporate Governance

The Company thoroughly studied and implemented the practices introduced by The Thought on Socialism with Chinese Characteristics for a New Era proposed by Xi Jinping as well as the spirit of the 19th CPC National Congress, incorporated Party building matters into the Articles of Association, integrated the Party's leadership into all works on corporate governance, and gave full play to the role of "setting a right direction, managing the overall situation and ensuring the implementation".

Leverage Synergistic Advantages and Maintained Stable Performance

In the first half of the year, the Company continuously optimised operation organisation and strengthened its advantages of unified operation, and achieved high quality development.

Ling Wen
Chairman

Section IV Chairman's Statement (Continued)

Coal segment: The Company optimised production organisation, accelerated capacity release of safe and advanced coal mines and overcame the impact of reduced production from certain coal mines. The commercial coal production volume remained relatively stable with a moderate increase in quality and efficiency. 18 out of 19 underground coal mines of the Group were listed in the "2018 Top 100 Chinese Coal Enterprises with Scientific Production Capacity" (2018中國煤炭企業科學產能百強), 11 coal mines of which were included in Top 20, occupying top three positions.

In response to national initiatives, the Company explored the contract signing of three-year long-term sales contracts, targeted high-profile end-user market, and established a long-effect mechanism for stable coal supply, fully playing the role of an energy "stabiliser" and "ballast". Depending on market condition, the Company timely adjusted the strategy of coal sale and enhanced the organisation of the source of purchased coal, and realized maximum benefits. In the first half of the year, the sales volume of coal amounted to 225.3 million tonnes, representing a year-on-year increase of 2.2%, of which the sales volume of seaborne coal amounted to 129.5 million tonnes, representing a year-on-year decrease of 1.7%.

Power segment: By seizing the opportunities arising from the demand growth of national electricity consumption and the favourable condition of thermal power generation, the Company optimised the operation and management of generating units, with power generation reaching a record high during the same period. In the first half of the year, the gross power generation reached 133.6 billion kWh while the total power output dispatch reached 125.4 billion kWh, representing a year-on-year increase of 9.5% and 9.6%, respectively. The average utilisation hours of coal-fired power generators were 2,364 hours, showing a year-on-year increase of 179 hours. 19 generating units won the National Thermal Power Efficiency Competition (全國火電能效對標競賽), accounting for 7% of the total number of winning units; and 5 generating units won the National Thermal Power Operation Reliability Competition (全國火電運行可靠性對標競賽), accounting for 11% of the total number of winning units.

Transportation segment: The Company continued to optimise the operating organisation, increased the average daily operation of the trains in the capacity of 20,000 tonnes and 10,000 tonnes, and further released operation capacity with a historical high recorded during the same period. The number of shipping vessels for "quasi-liner shipping" increased from 32 at the end of 2017 to 45, representing a continuous increase in transportation efficiency. The construction of Huangda Railway achieved a breakthrough progress. In the first half of the year, the transportation turnover of self-owned railway was 138.6 billion tonne km, representing a year-on-year increase of 1.6%; the seaborne coal sale at self-owned ports was 114.7 million tonnes, representing a year-on-year increase of 1.6%; the shipment turnover was 45.1 billion tonne nm, representing a year-on-year increase of 13.0%.

"Macroscopic logistic" in work focused on high-profile customers that engage in reverse transportation and bulk cargo via long-distance routes with large transportation volume, which achieved positive progress. In the first half of the year, the turnover of railway transportation offered to external customers was 14.6 billion tonne km, representing a year-on-year increase of 2.8%, with revenue of RMB2.8 billion, representing a year-on-year increase of 4.6%.

Coal chemical segment: The Company carried out technological innovation, quality improvement and efficiency enhancement, continuously optimised production plans and product structures, strived to improve production efficiency, expanded sales channels and ensured safe and stable operation of equipment on an ongoing basis. In the first half of the year, the sales volume of coal-to-olefins products reached 331.9 thousand tonnes.

Diligently Played a Leading Role in Science and Technology and Promoted Innovation-Driven Development

The "clean and efficient utilisation of coal" under the 2030 Major National Science and Technology Projects progressed steadily. The Company successfully carried out the trial production of the world's first 8.8-meter ultra-mining height intelligent working face at Shangwan Mine, filling the technical gap of one-off full height mining of ultra-thick coal seam working face nationwide and worldwide, creating a new standard for the unit production capacity of raw coal at a single working face. The Company organised and convened the first exhibition on new technologies and new equipment of heavy-loaded railways and participated in the 21st Beijing International High-tech Expo, receiving wide acclaim from the society.

The Company continued to promote development of clean coal power. As of the end of the reporting period, 85 ultra-low-emission coal-fired generators with total capacities of 50,660 MW of the Group were newly constructed or renovated, which accounts for 89.0% of the total installed capacity of coal-fired power generator of the Group. The percentage of installed capacity of ultra-low emission coal-fired generators continued to maintain its industry-leading position. The average standard coal consumption for power sold of coal-fired power generators of the Group for the first half of the year was 308 g/kWh, representing a decrease of 3g/kWh as compared with the same period last year.

In the first half of the year, the Group was granted 314 patents, including 44 invention patents.

Optimised Structural Adjustment and Continued to Improve Quality and Efficiency

The Company adhered to high-quality development, strengthened investment management and solidly promoted the construction arrangement of major projects. The coal division improved the subsequent production and production ratio of working faces, continuously optimised product structure and broadened product variety. For the power generation segment, two coal-fired generating units with a total power of 220MW were shut down, and the pace of construction of newly developed projects were adjusted in a timely manner.

Cost control has brought fruitful results. The Company further improved the establishment of the cost management accountability system and information system, reinforced control over budget and cost assessment mechanism, endeavoured to reduce cost of sales through refined management. It also implemented the goals of control over interest-bearing liabilities and guarantees and reinforced fund management. By enhancing the efficiency of concentrated procurement of materials, promoting joint storage of materials and opening up channels for materials adjustment, the utilisation rate of assets was increased.

Shouldered Social Responsibility with Safe and Green Development

The Company combined advanced control of risks with standardised construction of production safety, vigorously performed supervision over safety and environmental protection and project supervision. Intensive training sessions were organised on safety and environmental protection and further guidance was provided on safety culture so as to spread the concept of safety and environmental protection and make it deeply rooted in people's mind. In the first half of the year, there were no major casualties and environmental incidents nor equipment-related accidents which were categorised as class A (general type or above). The fatality rate per million tonne of coal output was zero, maintaining its leading position worldwide in production safety.

By vigorously carrying out mining ecological construction and pushing forward the governance of significant environmental risks, the Company has made fruitful results in energy conservation and environmental protection. Besides, it carried out basic works on carbon management in a systematic manner and actively participated in the construction of national carbon market. Enterprises which participated in the pilot markets in Guangdong and Tianjian have fulfilled their obligations in emission control, and upgrading environmental renovation of loading stations along railways.

Section IV Chairman's Statement (Continued)

With improvement of the production, living and medical conditions for people of supporting counties, targeted poverty alleviation counties and poverty-stricken villages as the intention and the foothold, the Company solidly carried out the work supporting Tibet, Qinghai and Xinjiang as well as targeted poverty alleviation. In the first half of the year, the Group offered approximately RMB58.30 million funds for targeted poverty alleviation, which were mainly utilised in education poverty alleviation, healthcare poverty alleviation, industry poverty alleviation and infrastructure construction. The Company achieved remarkable results in various works and was widely recognised by the society.

IN THE SECOND HALF OF 2018: THOROUGHLY IMPLEMENTING NATIONAL ENERGY STRATEGIES TO PROMOTE HIGH QUALITY DEVELOPMENT AND TO PLAY A LEADING AND EXEMPLARY ROLE

For the second half of the year, although the macroeconomy will operate stably with slight changes, the PRC government will adhere to general tones of seeking improvement in stability, which will be beneficial to the stability and growth of demand for coal, power and other energy resources.

China Shenhua will further optimise the organisation of integrated operation and strive to play a leading and exemplary role in building a world-class enterprise with global competitiveness. Priorities will include the followings:

Making New Achievements in Production and Operation under the Leadership of New Accomplishments of Party Building Work

The Company will continue to thoroughly study and implement the practices introduced by The Thought on Socialism with Chinese Characteristics in a New Era proposed by Xi Jinping as well as the spirit of the 19th CPC National Congress. Guided by the strengthening of Party building, the Company will deeply focus on various works including production safety and operation management, actively bring Party building works into daily production and operation management practice, form and boost the driving force for the reform and development of enterprises as well as providing strong political support for the sound development of the Company.

Giving Full Play to Synergies and Continuously Improving the Quality and Efficiency of Integrated Operation

Firstly, the Company will adopt the market- and efficiency-oriented approach to organise coal production in key mining areas. Through strengthening the efforts made in purchased coal, the Company will arrange the flow of coal source and resource allocation of transportation capacity by scientific means, and ensure the supply of coal for power in a sound manner. By performing long-term coal contracts, the Company will continue to push forward long-term mutual protection mechanism for purchased coal and retain quality customers. Secondly, the Company will enhance the centralised management and control level of fuel for power enterprises, promote collaborative marketing within the regions, and engage in direct transactions on internal power market. Thirdly, the Company shall put more resources on the joint transportation and "quasi-liner shipping" of long roads and continuously improve transportation operation efficiency. Fourthly, for the coal chemical business, the Company shall adopt an innovative marketing model and enhance the added value of the brand.

Focusing on Production Safety and Comprehensively Preventing and Mitigating Various Risks

The Company will comprehensively launch audit for safety and environmental protection management, and establish a sound production safety accountability system as well as a supervision and assessment mechanism. It will also refine risk precaution measures, improve the integrated prevention and control system for major disasters in the production field, and focus on the standardisation construction of production safety. The Company will accelerate the progress on land reclamation and vegetation restoration in mining areas, intensify the treatment of air, water and solid waste, and determine to fight the battle against pollution.

Strictly performing its duties to prevent and manage debt risks, the Company will be determined to win the battle against financial risks and conducted centralised control over investment, bidding and procurement, fuel and capital in a sound manner. The Company will attach great importance to international operation risks, strictly follow the decision-making procedures of investment in overseas projects. By enhancing the management of market capitalisation of the Company and properly carrying out works on investor's relations and information disclosure, the Company will be managed to enhance its value.

The Company will adhere to the strategies launched by the central government on targeted poverty alleviation and give full play to the role of charity foundation in order to assist the local governments in winning the battle of targeted poverty alleviation.

Accelerating Transformation and Upgrading and Focusing on Optimisation of Industrial Structure Layout

Firstly, the Company will prudently implement national industrial policies, establish a "three-in-one" control system for investment planning, project progress and capital allocation. Secondly, the Company will accelerate the expansion of advanced production capacity for safety and environmental protection, formulate green development standards for the coal industry and push forward customised production. It will also optimize the existing production capacity of mines, reasonably arrange the subsequent production, and promote the preliminary works on Xingjie mine. Thirdly, the Company will speed up the heat supply renovation of thermal power units, actively participate in electricity dispatch and sale market, steadily push forward the construction of Fuping Thermal Power and other key projects, and get prepared to co-operate for the establishment of the joint venture and other related works. Fourthly, the Company will plan for long-term development in the transportation industry, prudently analyse the impact of the capacity expansion of national railways and proactively formulate responsive plans. By advancing the set-up of macroscopic logistics, exploring potentials, expanding production capacity and improving efficiency, the Company will speed up the construction of Huangda Railway as well as the major route for transportation with a capacity of 350 million tonnes/year and increase the throughput capacity of Huanghua Port. Fifthly, the Company will push forward quality and efficiency improvement in the coal chemical industry, continuously enhance the safety level of equipment operation and vigorously develop new products with high added-value.

Further Developing Innovative Capabilities and Continuously Improving the Level of Science and Technology and Soft Power of Enterprises

The Company will speed up the promotion of its key technological research and development as well as achievements in areas such as green development of coal, intelligent power generation, intelligent heavy-loaded railways and ports. The Company will also promote the "technology and demonstration of ecological restoration and comprehensive remediation for large-scale coal-fired power generation base in the eastern grassland area" (東部草原區大型煤電基地生態修復與綜合整治技術及示範) and "recovery and resource utilisation technology of coal-fired smoke sulfur" (燃煤煙氣硫回收及資源化利用技術) and other projects under the Major National Science and Technology Projects. By focusing on the advanced technology for the transportation via roads and ports, the Company will continue to carry out wireless control for heavy-loaded railway and vehicles, smart driving technology, technological research on intelligent port control and dust control, and promote the demonstration and construction of moving block system. Leveraging on information technology and intelligent transformation for new momentum, the Company will build a smart enterprise and strengthen the driving force of development.

For the second half of the year, China Shenhua will remain true to our original aspiration, keep our mission firmly in mind, forge ahead with determination, engage in unostentatious hard work, promote a safe, efficient and sustainable development in all businesses of the Company and create greater value to investors.

Ling Wen
Chairman

24 August 2018

Overview of China Shenhua's Operating Results for the First Half of 2018

Table 1 Operation Targets and Status of Completion

		Completed in the first half of 2018	Target for 2018	Percentage of completion %
Commercial coal production	100 million tonnes	**1.458**	2.9	50.3
Coal sales	100 million tonnes	**2.253**	4.3	52.4
Power output dispatch	billion kWh	**125.38**	248.6	50.4
Revenue	RMB100 million	**1,273.80**	2,493	51.1
Cost of sales	RMB100 million	**826.42**	1,684	49.1
Selling, general and administrative expenses and net finance costs	RMB100 million	**65.67**	138	47.6
Change in unit production cost of self-produced coal	/	**Increased by 9.8% year-on-year**	Increased by approximately 8% year-on-year[Note]	/

Table 2 Financial Indicators

		The first half of 2018	The first half of 2017	Change %
Revenue	RMB million	**127,380**	120,518	5.7
Profit for the period	RMB million	**29,887**	30,839	(3.1)
EBITDA	RMB million	**52,281**	51,863	0.8
Profit for the period attributable to equity holders of the Company	RMB million	**24,520**	26,298	(6.8)
Basic earnings per share	RMB/share	**1.233**	1.322	(6.8)
Net cash generated from operating activities	RMB million	**31,937**	47,637	(33.0)
Net cash generated from operating activities excluding Shenhua Finance Company	RMB million	**35,048**	44,653	(21.5)

Table 3 Segment Results

	Coal: The first half of 2018 RMB million	Coal: The first half of 2017 RMB million	Power: The first half of 2018 RMB million	Power: The first half of 2017 RMB million	Railway: The first half of 2018 RMB million	Railway: The first half of 2017 RMB million	Port: The first half of 2018 RMB million	Port: The first half of 2017 RMB million	Shipping: The first half of 2018 RMB million	Shipping: The first half of 2017 RMB million	Coal Chemical: The first half of 2018 RMB million	Coal Chemical: The first half of 2017 RMB million	Unallocated items: The first half of 2018 RMB million	Unallocated items: The first half of 2017 RMB million	Eliminations: The first half of 2018 RMB million	Eliminations: The first half of 2017 RMB million	Total: The first half of 2018 RMB million	Total: The first half of 2017 RMB million
Revenue from external customers	**79,369**	77,272	**40,614**	36,220	**2,802**	2,679	**366**	372	**438**	289	**3,032**	2,996	**759**	690	**–**	–	**127,380**	120,518
Inter-segment revenue	**20,610**	18,759	**154**	212	**16,339**	15,827	**2,616**	2,425	**1,596**	1,159	**–**	–	**494**	499	**(41,809)**	(38,881)	**–**	–
Sub-total of segment revenue	**99,979**	96,031	**40,768**	36,432	**19,141**	18,506	**2,982**	2,797	**2,034**	1,448	**3,032**	2,996	**1,253**	1,189	**(41,809)**	(38,881)	**127,380**	120,518
Segment cost of sales	**(74,624)**	(69,507)	**(33,970)**	(31,769)	**(9,630)**	(9,637)	**(1,413)**	(1,354)	**(1,526)**	(1,121)	**(2,607)**	(2,612)	**(16)**	(16)	**41,144**	38,401	**(82,642)**	(77,615)
Segment profit/(loss) from operations	**23,250**	24,378	**5,393**	3,237	**9,029**	8,409	**1,443**	1,329	**451**	270	**342**	319	**714**	836	**(665)**	(480)	**39,957**	38,298

	Coal: As at 30 June 2018 RMB million	Coal: As at 31 December 2017 RMB million	Power: As at 30 June 2018 RMB million	Power: As at 31 December 2017 RMB million	Railway: As at 30 June 2018 RMB million	Railway: As at 31 December 2017 RMB million	Port: As at 30 June 2018 RMB million	Port: As at 31 December 2017 RMB million	Shipping: As at 30 June 2018 RMB million	Shipping: As at 31 December 2017 RMB million	Coal Chemical: As at 30 June 2018 RMB million	Coal Chemical: As at 31 December 2017 RMB million	Unallocated items: As at 30 June 2018 RMB million	Unallocated items: As at 31 December 2017 RMB million	Eliminations: As at 30 June 2018 RMB million	Eliminations: As at 31 December 2017 RMB million	Total: As at 30 June 2018 RMB million	Total: As at 31 December 2017 RMB million
Segment total assets	**243,906**	225,672	**224,431**	215,910	**133,694**	129,829	**25,097**	24,211	**7,429**	7,865	**10,291**	10,982	**406,028**	381,056	**(454,302)**	(423,923)	**596,574**	571,602
Segment total liabilities	**(116,233)**	(114,713)	**(162,080)**	(152,157)	**(63,321)**	(65,772)	**(10,570)**	(10,607)	**(766)**	(1,527)	**(2,635)**	(3,619)	**(203,887)**	(169,782)	**353,569**	325,680	**(205,923)**	(192,497)

Table 4 Operation Data

		The first half of 2018	The first half of 2017	Change %
Commercial coal production	million tonnes	**145.8**	151.7	(3.9)
Coal sales	million tonnes	**225.3**	220.5	2.2
Including: Self-produced coal	million tonnes	**145.5**	157.5	(7.6)
Purchased coal	million tonnes	**79.8**	63.0	26.7
Gross power generation	billion kWh	**133.59**	122.05	9.5
Total power output dispatch	billion kWh	**125.38**	114.43	9.6
Polyethylene sales	thousand tonnes	**171.6**	171.8	(0.1)
Polypropylene sales	thousand tonnes	**160.3**	170.4	(5.9)
Transportation turnover of self-owned railway	billion tonne km	**138.6**	136.4	1.6
Seaborne coal	million tonnes	**129.5**	131.8	(1.7)
Shipping volume	million tonnes	**51.6**	46.0	12.2
Shipment turnover	billion tonne nm	**45.1**	39.9	13.0

Table 5 Commercial Coal Production Volume

	The first half of 2018 million tonnes	The first half of 2017 million tonnes	Change %
Total production	**145.8**	151.7	(3.9)
By mines			
Shendong Mines	**98.0**	94.9	3.3
Zhunge'er Mines	**22.6**	32.2	(29.8)
Shengli Mines	**9.1**	8.3	9.6
Baorixile Mines	**16.1**	15.0	7.3
Baotou Mines	**–**	0.4	(100.0)
EMM Indonesia	**–**	0.9	(100.0)
By regions			
Inner Mongolia	**94.7**	100.5	(5.8)
Shaanxi	**49.5**	48.2	2.7
Shanxi	**1.6**	2.1	(23.8)
Overseas	**–**	0.9	(100.0)

Table 6 Power Business

Power plants	Regional grid	Location	Gross power generation 100 million kWh	Total power output dispatch 100 million kWh	Average utilisation hours hours	Standard coal consumption rate for power output dispatch g/kWh	Power tariff RMB/mWh	Total installed capacity as at 31 December 2017 MW	Increase/(decrease) in installed capacity for the first half of 2018 MW	Total installed capacity as at 30 June 2018 MW	Equity installed capacity as at 30 June 2018 MW
Zhunge'er Power	North China Power Grid	Inner Mongolia	14.9	13.3	1,549	374	206	960	-	960	554
Guohua Zhunge'er	North China Power Grid	Inner Mongolia	31.8	28.8	2,412	305	225	1,320	-	1,320	639
Guohua Hulunbei'er Power	Northeast Power Grid	Inner Mongolia	28.3	25.5	2,361	321	242	1,200	-	1,200	960
Shendong Power	Northwest/North China/ Shaanxi Provincial Local Power Grid	Inner Mongolia	149.1	137.2	1,800	332	253	8,284	-	8,284	7,634
Cangdong Power	North China Power Grid	Hebei	62.4	59.7	2,478	299	315	2,520	-	2,520	1,285
Sanhe Power	North China Power Grid	Hebei	31.5	29.3	2,368	279	327	1,330	-	1,330	512
Dingzhou Power	North China Power Grid	Hebei	65.3	60.3	2,590	306	316	2,520	-	2,520	1,021
Taishan Power	South China Power Grid	Guangdong	128.3	121.4	2,550	307	346	5,030	-	5,030	4,024
Huizhou Thermal	South China Power Grid	Guangdong	16.3	14.8	2,476	325	366	660	-	660	660
Zheneng Power	East China Power Grid	Zhejiang	128.3	122.3	2,838	296	351	4,490	30	4,520	2,712
Zhoushan Power	East China Power Grid	Zhejiang	23.0	21.4	2,532	331	358	910	-	910	464
Shenwan Energy	East China Power Grid	Anhui	114.8	109.7	2,496	297	302	4,600	-	4,600	2,346
Taicang Power	East China Power Grid	Jiangsu	35.5	34.0	2,815	293	309	1,260	-	1,260	630
Chenjiagang Power	East China Power Grid	Jiangsu	31.4	30.1	2,383	284	313	1,320	-	1,320	726
Xuzhou Power	East China Power Grid	Jiangsu	45.1	42.9	2,254	290	316	2,000	-	2,000	2,000
Suizhong Power	Northeast Power Grid	Liaoning	85.1	79.8	2,264	311	298	3,760	-	3,760	1,880
Fujian Energy	East China Power Grid	Fujian	63.1	60.2	2,253	300	336	2,700	100	2,800	1,375
Jinjie Energy	North China Power Grid	Shaanxi	79.9	73.4	3,328	322	262	2,400	–	2,400	1,680
Shenmu Power	Northwest Power Grid	Shaanxi	0.7	0.6	–	357	305	220	(220)	-	-
Shenhua Sichuan Energy (coal-fired power)	Sichuan Power Grid	Sichuan	17.7	16.2	1,407	330	371	1,260	-	1,260	604
Mengjin Power	Central China Power Grid	Henan	20.7	19.5	1,722	306	292	1,200	-	1,200	612
Shouguang Power	North China Power Grid	Shandong	47.2	45.0	2,337	280	330	2,000	20	2,020	1,212
Guohua Ningdong	Zhejiang Power Grid	Ningxia	31.3	29.5	2,372	302	222	1,320	-	1,320	749
Ningdong Power	Northwest Power Grid	Ningxia	11.6	10.3	1,764	349	229	660	-	660	660
Panshan Power	North China Power Grid	Tianjin	25.4	23.8	2,394	307	365	1,060	-	1,060	482
Liuzhou Power	Guangxi Power Grid	Guangxi	9.4	8.8	1,338	320	355	700	-	700	364
Jiujiang Power	Central China Power Grid	Jiangxi	2.1	2.0	207	288	317	–	1000	1,000	1,000
EMM Indonesia	PLN	Indonesia	7.9	6.9	2,639	368	499	300	-	300	210
Total for coal-fired power plants/weighted average			**1,308.1**	**1,226.7**	**2,364**	**308**	**307**	**55,984**	**930**	**56,914**	**36,995**
Other power plants											
Beijing Gas-fired Power	North China Power Grid	Beijing	17.5	17.0	1,838	194	623	950	–	950	950
Yuyao Power	East China Power Grid	Zhejiang	7.5	7.3	961	235	438	780	–	780	624
Shenhua Sichuan Energy (hydropower)	Sichuan Provincial Local Power Grid	Sichuan	2.8	2.8	2,257	–	243	125	–	125	48
Zhuhai Wind Energy	South China Power Grid	Guangdong	–	–	–	–	–	16	(16)	–	–

Table 7 Cost of Sales of Coal Segment

	The first half of 2018 Cost RMB million	The first half of 2018 Volume million tonnes	The first half of 2018 Unit cost RMB/tonne	The first half of 2017 Cost RMB million	The first half of 2017 Volume million tonnes	The first half of 2017 Unit cost RMB/tonne	Change in unit cost %
Cost of coal purchased	**27,863**	**79.8**	**349.2**	22,848	63.0	362.7	(3.7)
Production cost of self-produced coal	**16,005**	**145.5**	**110.0**	15,779	157.5	100.2	9.8
Materials, fuel and power	**3,198**	**145.5**	**22.0**	2,732	157.5	17.3	27.2
Personnel expenses	**2,877**	**145.5**	**19.8**	2,637	157.5	16.7	18.6
Repairs and maintenance	**1,133**	**145.5**	**7.8**	984	157.5	6.2	25.8
Depreciation and amortization	**2,904**	**145.5**	**20.1**	2,994	157.5	19.0	5.8
Others	**5,893**	**145.5**	**40.3**	6,432	157.5	41.0	(1.7)
Tax and surcharges	**3,961**			4,000			
Cost of coal transportation	**25,238**			25,036			
Other operating costs	**1,557**			1,844			
Total cost of sales	**74,624**			69,507			

Table 8 Cost of Sales of Power Segment

	The first half of 2018 Cost RMB million	The first half of 2018 Power output dispatch 100 million kWh	The first half of 2018 Unit cost RMB/mWh	The first half of 2017 Cost RMB million	The first half of 2017 Power output dispatch 100 million kWh	The first half of 2017 Unit cost RMB/mWh	Change in unit cost %
Cost of power output dispatch	**33,261**	**1,253.8**	**265.3**	31,000	1,144.3	270.9	(2.1)
Materials, fuel and power	**24,980**	**1,253.8**	**199.2**	22,388	1,144.3	195.6	1.8
Personnel expenses	**1,650**	**1,253.8**	**13.2**	1,781	1,144.3	15.6	(15.4)
Repairs and maintenance	**1,109**	**1,253.8**	**8.8**	1,005	1,144.3	8.8	–
Depreciation and amortization	**4,658**	**1,253.8**	**37.2**	4,697	1,144.3	41.0	(9.3)
Others	**864**	**1,253.8**	**6.9**	1,129	1,144.3	9.9	(30.3)
Tax and surcharges	**581**			498			
Other operating costs	**128**			271			
Total cost of sales	**33,970**			31,769			

Table 9 Volume of Domestic Coal Sales

		The first half of 2018 million tonnes	Proportion of domestic sales %	The first half of 2017 million tonnes	Change %
Domestic sales		**222.5**	100.0	216.6	2.7
By region	Northern China	**58.6**	26.3	88.4	(33.7)
	Eastern China	**93.4**	42.0	76.4	22.3
	Central China and Southern China	**44.0**	19.8	31.3	40.6
	Northeast China	**17.2**	7.7	14.5	18.6
	Others	**9.3**	4.2	6.0	55.0
By usage	Thermal coal	**166.0**	74.6	160.5	3.4
	Metallurgy	**7.7**	3.5	5.7	35.1
	Chemical (including coal slurry)	**20.0**	9.0	19.8	1.0
	Others	**28.8**	12.9	30.6	(5.9)

Table 10 Status of Completion of Capital Expenditures

	Plans for 2018: Total amount 100 million	Plans for 2018: Specified investment project 100 million	Completed in the first half of 2018 100 million	Percentage of completion %
Coal segment		25.5	**14.9**	58.4
Power segment		105.0	**47.4**	45.1
Transportation segment	290	52.5	**12.8**	24.4
Coal chemical business		2.6	**0.6**	23.1
Others		1.1	**0.1**	9.1
Total	290	186.7	**75.8**	40.6

Table 11 Cost of Sales of Transportation and Coal Chemical Segments

	Railway: The first half of 2018 RMB million	Railway: The first half of 2017 RMB million	Railway: Change %	Port: The first half of 2018 RMB million	Port: The first half of 2017 RMB million	Port: Change %	Shipping: The first half of 2018 RMB million	Shipping: The first half of 2017 RMB million	Shipping: Change %	Coal Chemical: The first half of 2018 RMB million	Coal Chemical: The first half of 2017 RMB million	Coal Chemical: Change %
Cost of internal transportation business	**7,679**	7,543	1.8	**1,164**	1,144	1.7	**1,169**	896	30.5	**N/A**	N/A	N/A
Materials, fuel and power	**1,186**	1,175	0.9	**174**	133	30.8	**170**	157	8.3	**1,425**	1,392	2.4
Personnel expenses	**1,574**	1,471	7.0	**124**	128	(3.1)	**3**	–	N/A	**133**	135	(1.5)
Repairs and maintenance	**2,063**	2,427	(15.0)	**140**	153	(8.5)	**24**	23	4.3	**167**	135	23.7
Depreciation and amortization	**1,878**	1,814	3.5	**422**	403	4.7	**91**	95	(4.2)	**432**	438	(1.4)
External transportation charges	**415**	289	43.6	**N/A**	N/A	N/A	**774**	502	54.2	**N/A**	N/A	N/A
Others	**563**	367	53.4	**304**	327	(7.0)	**107**	119	(10.1)	**98**	135	(27.4)
Cost of external transportation business	**1,392**	1,398	(0.4)	**159**	156	1.9	**355**	224	58.5	**N/A**	N/A	N/A
Sub-total cost of prime business	**9,071**	8,941	1.5	**1,323**	1,300	1.8	**1,524**	1,120	36.1	**2,255**	2,235	0.9
Tax and surcharges	**222**	231	(3.9)	**61**	21	190.5	**2**	1	100.0	**94**	101	(6.9)
Other operating costs	**337**	465	(27.5)	**29**	33	(12.1)	**N/A**	N/A	N/A	**258**	276	(6.5)
Total cost of sales	**9,630**	9,637	(0.1)	**1,413**	1,354	4.4	**1,526**	1,121	36.1	**2,607**	2,612	(0.2)

Table 12 Coal Sales Price

	The first half of 2018 Sales volume million tonnes	The first half of 2018 Percentage to total sales volume %	The first half of 2018 Price RMB/tonne	The first half of 2017 Sales volume million tonnes	The first half of 2017 Percentage to total sales volume %	The first half of 2017 Price RMB/tonne	Change Sales volume %	Change Price %
I. Domestic sales	**222.5**	**98.8**	**431**	216.6	98.3	425	2.7	1.4
(I) Self-produced coal and purchased coal	**210.4**	**93.4**	**431**	209.5	95.1	425	0.4	1.4
1. Direct arrival	**81.9**	**36.4**	**315**	78.9	35.8	306	3.8	2.9
2. Seaborne	**128.5**	**57.0**	**505**	130.6	59.3	497	(1.6)	1.6
(II) Sales of domestic trading coal	**11.3**	**5.0**	**444**	6.6	3.0	417	71.2	6.5
(III) Sales of imported coal	**0.8**	**0.4**	**404**	0.5	0.2	580	60.0	(30.3)
II. Export sales	**1.0**	**0.4**	**485**	1.2	0.5	399	(16.7)	21.6
III. Overseas coal sales	**1.8**	**0.8**	**519**	2.7	1.2	376	(33.3)	38.0
Total sales volume/weighted average price	**225.3**	**100.0**	**432**	220.5	100.0	425	2.2	1.6
Including: Sales to external customers	**178.1**	**79.1**	**443**	175.7	79.7	433	1.4	2.3
Sales to internal power segment	**45.1**	**20.0**	**392**	42.5	19.3	394	6.1	(0.5)
Sales to internal coal chemical segment	**2.1**	**0.9**	**357**	2.3	1.0	363	(8.7)	(1.7)

Note: Adjusted in accordance with the authorization granted at the tenth meeting of the fourth session of the Board of the Company.

Table 13 Coal Resources Reserve

Mines	Coal resources (under PRC standard): As at 30 June 2018 100 million tonnes	Coal resources: As at 31 December 2017 100 million tonnes	Coal resources: Change %	Recoverable reserve (under PRC standard): As at 30 June 2018 100 million tonnes	Recoverable reserve: As at 31 December 2017 100 million tonnes	Recoverable reserve: Change %	Marketable reserve (under JORC standard): As at 30 June 2018 100 million tonnes	Marketable reserve: As at 31 December 2017 100 million tonnes	Marketable reserve: Change %
Shendong Mines	**161.3**	162.3	(0.6)	**93.1**	93.8	(0.7)	**48.7**	49.7	(2.0)
Zhunge'er Mines	**39.4**	39.6	(0.5)	**31.5**	31.7	(0.6)	**21.0**	21.2	(0.9)
Shengli Mines	**20.4**	20.4	–	**13.9**	14.0	(0.7)	**2.2**	2.3	(4.3)
Baorixile Mines	**14.0**	14.2	(1.4)	**11.9**	12.0	(0.8)	**12.2**	12.3	(0.8)
Baotou Mines	**0.5**	0.5	–	**0.4**	0.4	–	**–**	–	–
Total of China Shenhua	**235.6**	237.0	(0.6)	**150.8**	151.9	(0.7)	**84.1**	85.5	(1.6)

Table 14 Seaborne Coal at Ports

	The first half of 2018 million tonnes	The first half of 2017 million tonnes	Change %
Self-owned ports	**114.7**	112.9	1.6
Huanghua Port	**92.0**	91.7	0.3
Shenhua Tianjin Coal Dock	**22.7**	21.2	7.1
Third-party ports	**14.8**	18.9	(21.7)
Total seaborne coal	**129.5**	131.8	(1.7)

Table 15 Railway Transportation Turnover

	The first half of 2018 billion tonnes km	The first half of 2017 billion tonnes km	Change %
Self-owned railways	**138.6**	136.4	1.6
Shenshuo Railway	**26.2**	26.2	-
Shuohuang–Huangwan Railway	**86.2**	85.3	1.1
Dazhun Railway	**14.5**	14.6	(0.7)
Baoshen Railway	**4.9**	4.3	14.0
Ganquan Railway	**0.5**	0.8	(37.5)
Bazhun Railway	**1.8**	0.8	125.0
Zhunchi Railway	**4.5**	4.4	2.3
Tahan Railway	**–**	–	N/A
State-owned railways	**16.2**	16.8	(3.6)
Total railway turnover	**154.8**	153.2	1.0

Self-owned railways under construction	Length	Planned annual transportation capacity	Commencement year	Estimated completion year
Huangda Railway (under construction)	210.2 km	40 million tonnes	2015	2019
Amo Railway (construction suspended)	97 km	15.52 million tonnes	/	/

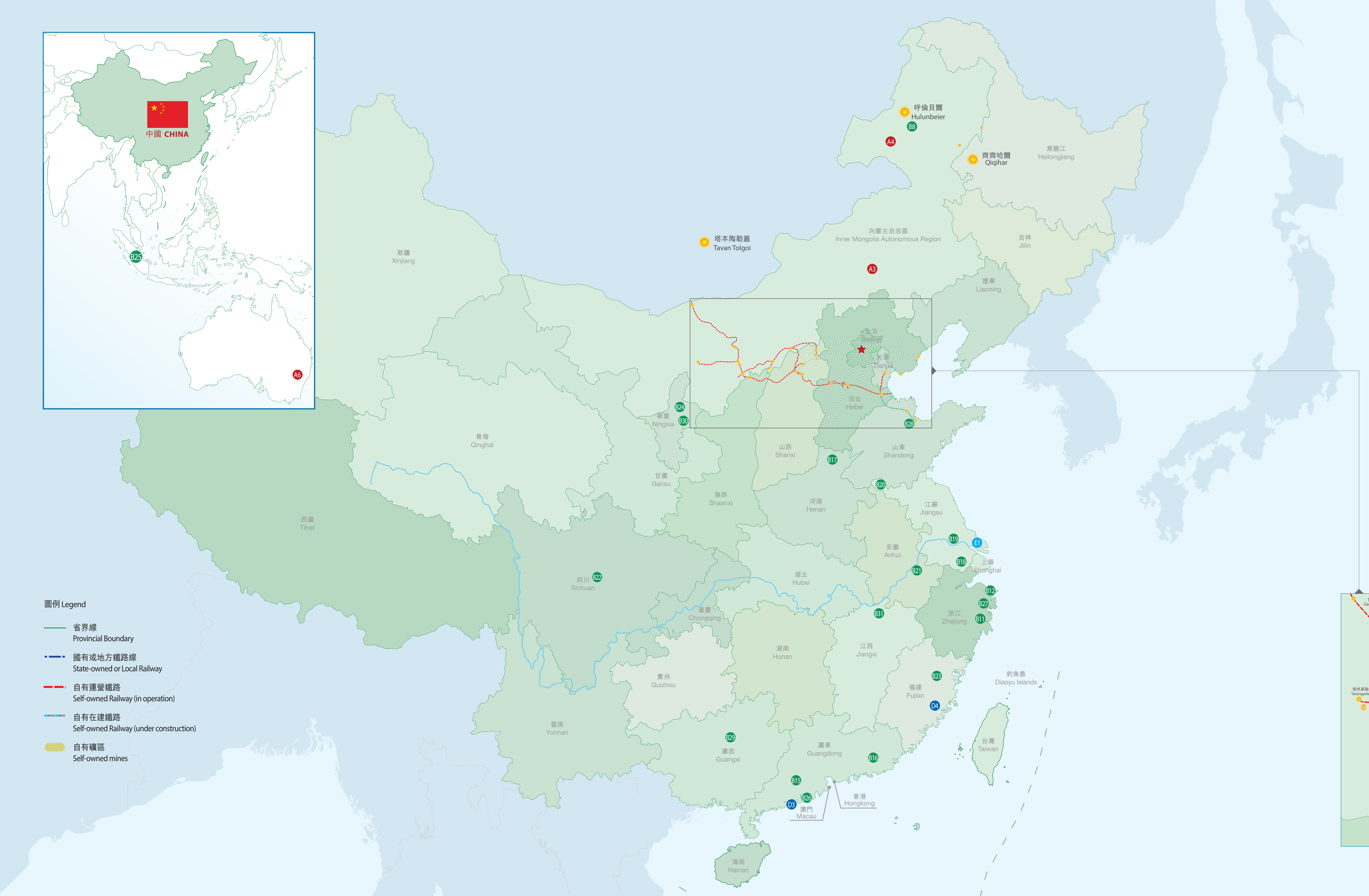
Table 16 Shipping Volume

	The first half of 2018 million tonnes	The first half of 2017 million tonnes	Change %
Shenhua Zhonghai Shipping Company			
The Group's internal customers	**38.8**	34.6	12.1
External customers	**12.8**	11.4	12.3
Total shipping volume	**51.6**	46.0	12.2

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

主要資產分佈圖 Assets Distribution Map

2018



煤礦 COAL MINE

A1. 神東礦區
Shendong Mines

A2. 准格爾礦區
Zhunge'er Mines

A3. 勝利礦區
Shengli Mines

A4. 寶日希勒礦區
Baorixile Mines

A5. 包頭礦區
Baotou Mines

A6. 澳大利亞沃特馬克煤礦項目（前期工作階段）
Watermark Coal Project in Australia
(preliminary work in progress)

A7. 新街台格廟勘查區（前期工作階段）
Xinjie Taigemiao Exploration Area
(preliminary work in progress)

電廠 POWER

B1. 滄東電力
Cangdong Power

B2. 三河電力
Sanhe Power

B3. 定州電力
Dingzhou Power

B4. 盤山電力
Panshan Power

B5. 准能電力
Zhunge'er Power

B6. 神東電力
Shendong Power

B7. 國華准格爾
Guohua Zhunge'er

B8. 國華呼電
Guohua Hulunbeier Power

B9. 北京燃氣
Beijing Gas Power

B10. 綏中電力
Suizhong Power

B11. 浙能電力
Zheneng Power

B12. 舟山電力
Zhoushan Power

B13. 錦界能源
Jinjie Energy

B14. 神木電力（已關停）
Shenmu Power (shut down)

B15. 台山電力
Taishan Power

B16. 惠州熱電
Huizhou Thermal

B17. 孟津電力
Mengjin Power

B18. 太倉電力
Taicang Power

B19. 陳家港電力
Chenjiagang Power

B20. 徐州電力
Xuzhou Power

B21. 神皖能源
Shenwan Energy

B22. 神華四川能源
Shenhua Sichuan Energy

B23. 神華福建能源
Shenhua Fujian Energy

B24. 寧東電力
Ningdong Power

B25. 南蘇EMM
EMM Indonesia

B26. 珠海風能（已關停）
Zhuhai Wind (shut down)

B27. 余姚電力
Yuyao Power

B28. 壽光電力
Shouguang Power

B29. 柳州電力
Liuzhou Power

B30. 國華寧東
Guohua Ningdong

B31. 九江電力
Jiujiang Power

鐵路 RAILWAY

C1. 神朔鐵路
Shenshuo Railway

C2. 朔黃鐵路
Shuohuang Railway

C3. 黃萬鐵路
Huangwan Railway

C4. 大准鐵路
Dazhun Railway

C5. 包神鐵路
Baoshen Railway

C6. 巴准鐵路
Bazhun Railway

C7. 甘泉鐵路
Ganquan Railway

C8. 准池鐵路
Zhunchi Railway

C9. 黃大鐵路（在建）
Huangda Railway (under construction)

C10. 塔韓鐵路
Tahan Railway

港口 PORT

D1. 黃驊港
Huanghua Port

D2. 神華天津煤碼頭
Shenhua Tianjin Coal Dock

D3. 珠海煤碼頭
Zhuhai Coal Dock

D4. 羅源灣項目(籌備中)
Luoyuan Wan Project (under preparation)

煤化工 COAL CHEMICAL

F1. 包頭煤化工
Baotou Coal Chemical

航運 SHIPPING

E1. 神華中海航運
Shenhua Zhonghai Shipping Company

註： 於2018年6月30日之分佈圖，僅做示意。
Note: This map as at 30 June 2018 is for illustrative purpose only.

Section V Discussion and Analysis on Operation Results

I. DISCUSSION AND ANALYSIS ON OPERATION RESULTS

In the first half of the year, amidst strong demands in coal and power market, the Group seized the opportunities and strived to overcome adverse influence of the reduced coal mine production and increased pressure on environmental protection inspection. The Group has optimised arrangements for production and transportation, and further improved the quality and efficiency of integrated operation. Various operating indicators remained at high levels, and business performance maintained at healthy and steady levels, remaining at historic high interval.

The Group recorded a profit for the period of RMB29,887 million in the first half of 2018 (the first half of 2017: RMB30,839 million), representing a year-on-year decrease of 3.1%; a profit for the period attributable to equity holders of the Company of RMB24,520 million (the first half of 2017: RMB26,298 million); and basic earnings per share of RMB1.233/share (the first half of 2017:RMB1.322/share), representing a year-on-year decrease of 6.8%.

Major financial indicators of the Group for the first half of 2018 are as follows:

	Unit	**In the first half of 2018**	In the first half of 2017	Change
Return on total assets as at the end of the period	%	**5.0**	5.0	–
Return on net assets as at the end of the period	%	**7.9**	9.3	Decreased by 1.4 percentage points
EBITDA	RMB million	**52,281**	51,863	0.8%

	Unit	**As at 30 June 2018**	As at 31 December 2017	Change
Equity of shareholders per share	RMB/share	**15.69**	15.36	2.1%
Asset liability ratio	%	**34.5**	33.7	Increased by 0.8 percentage points
Total debt to total equity ratio	%	**20.3**	20.4	Decreased by 0.1 percentage points

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

II. MAJOR OPERATION RESULTS DURING THE REPORTING PERIOD

(I) Analysis on principal business

1. Analysis on Changes in the Major Items in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Cash Flows

Unit: RMB million

Item	In the first half of 2018	In the first half of 2017	Change %
Revenue	**127,380**	120,518	5.7
Cost of sales	**(82,642)**	(77,615)	6.5
General and administrative expenses	**(4,460)**	(3,934)	13.4
Other gains and losses	**(4)**	558	(100.7)
Share of results of associates	**274**	223	22.9
Income tax expense	**(8,605)**	(7,156)	20.2
Profit for the period attributable to equity holders of the Company	**24,520**	26,298	(6.8)
Net cash generated from operating activities	**31,937**	47,637	(33.0)
Of which: Net cash (used in)/ generated from operating activities of Shenhua Finance Company	**(3,111)**	2,984	(204.3)
Net cash generated from operating activities excluding the effect of Shenhua Finance Company	**35,048**	44,653	(21.5)
Net cash (used in)/generated from investing activities	**(8,433)**	1,949	(532.7)
Net cash used in financing activities	**(1,598)**	(2,377)	(32.8)

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

(1) *Factors affecting the change of revenue*

The revenue of the Group in the first half of 2018 recorded a year-on-year increase of 5.7%. The main reasons for such change are:

① Influenced by the year-on-year increase recorded in the growth of power consumption of the whole society, the power output dispatch of the Group was 125.38 billion kWh (the first half of 2017: 114.43 billion kWh), representing a year-on-year increase of 9.6%; average power tariffs being RMB312/mWh (the first half of 2017: RMB307/mWh, representing a year-on-year growth of 1.6%.

② Influenced by factors such as stable growth of the macro economy and the weather, domestic demand for thermal coal remained strong. The Group recorded sales of coal to 225.3 million tonnes for the first half of the year (the first half of 2017: 220.5 million tonnes), representing a year-on-year increase of 2.2%; the average sales price of coal was RMB432 per tonne (exclusive of tax) (the first half of 2017: RMB425 per tonne), representing a year-on-year increase of 1.6%;

③ Benefited from a continuously high coal demand, the coal transportation volume and shipping prices have recorded year-on-year increase. Income from the Group's railways, ports and shipping businesses in the first half of the year have increased year-on-year by 3.4%, 6.6% and 40.5% respectively.

④ The price of sales of polyolefin products showed a year-on-year increase.

Major operating indicators	Unit	In the first half of 2018	In the first half of 2017	Change %
(I) Coal				
1. Commercial coal production	Million tonnes	**145.8**	151.7	(3.9)
2. Coal sales	Million tonnes	**225.3**	220.5	2.2
Of which: Self-produced coal	Million tonnes	**145.5**	157.5	(7.6)
Purchased coal	Million tonnes	**79.8**	63.0	26.7
(II) Power generation				
1. Gross power generation	Billion kWh	**133.59**	122.05	9.5
2. Total power output dispatch	Billion kWh	**125.38**	114.43	9.6
(III) Coal chemical				
1. Sales of polyethylene	Thousand tonnes	**171.6**	171.8	(0.1)
2. Sales of polypropylene	Thousand tonnes	**160.3**	170.4	(5.9)
(IV) Transportation				
1. Turnover of self-owned railway	Billion tonne km	**138.6**	136.4	1.6
2. Seaborne coal	Million tonnes	**129.5**	131.8	(1.7)
Of which: Via Huanghua Port	Million tonnes	**92.0**	91.7	0.3
Via Shenhua Tianjin Coal Dock	Million tonnes	**22.7**	21.2	7.1
3. Shipping volume	Million tonnes	**51.6**	46.0	12.2
4. Shipment turnover	Billion tonne nautical miles	**45.1**	39.9	13.0

(2) Factors on the change of costs

Unit: RMB million

Breakdown of cost of sales	Amount for the period	Percentage to cost of sales for the period %	Amount for the same period of the previous year	Percentage to cost of sales for the same period of the previous year %	Change in amount for the period over that of the same period of the previous year %
Cost of coal purchased	**27,863**	**33.7**	22,848	29.4	21.9
Materials, fuel and power	**10,701**	**13.0**	9,181	11.8	16.6
Personnel expenses	**6,593**	**8.0**	6,356	8.2	3.7
Depreciation and amortisation	**10,761**	**13.0**	10,765	13.9	(0.0)
Repairs and maintenance	**4,912**	**5.9**	5,010	6.5	(2.0)
Transportation charges	**7,453**	**9.0**	7,222	9.3	3.2
Taxes and surcharges	**4,940**	**6.0**	4,870	6.3	1.4
Others	**9,419**	**11.4**	11,363	14.6	(17.1)
Total cost of sales	**82,642**	**100.0**	77,615	100.0	6.5

The cost of sales of the Group in the first half of 2018 represented a year-on-year increase of 6.5%, of which:

① The cost of coal purchased represented a year-on-year increase of 21.9%, which was mainly attributable to increased coal purchase volume in order to satisfy market demand;

② Costs of materials, fuel and power represented a year-on-year increase of 16.6%, which was mainly attributable to increase in coal cost, increase of open pit earthwork stripping consumables, rise of fuel price, etc. as a result of increased power generation;

③ Personnel expenses represented a year-on-year increase of 3.7%, which was mainly attributable to slight improvement of applicable salary standard of the Group during the reporting period compared to that during the same period in previous year;

④ Transportation charges represented the costs of the Group incurred through external railway, expressway, shipping transportation, the use of external port and so forth. Such charges represented a year-on-year increase of 3.2% in the first half of 2018, which was mainly attributable to the up-regulation of freight rate by State-owned railways;

⑤ Other costs represented a year-on-year decrease of 17.1%, which was mainly attributable to the decrease in other costs and other business costs, and a year-on-year decrease in mining engineering expense, removal compensations, etc.

(3) Other items of profit and loss statement

① General and administrative expenses represented a year-on-year increase of 13.4% in the first half of 2018, which was mainly attributable to the increase in labour cost.

② Other gains and losses represented a year-on-year decrease of 100.7% in the first half of 2018, which was mainly attributable to the increase in gains from wealth management products in the first half of 2017, resulting in a high base for the same period last year.

③ Share of results of associates represented a year-on-year increase of 22.9% in the first half of 2018, which was mainly attributable to the increase in investment income from power associates.

④ Income tax expense represented a year-on-year increase of 20.2% in the first half of 2018 and the average rate of income tax in the first half of 2018 was 22.4% (the first half of 2017: 18.8%), with a year-on-year increase of 3.6 percentage points, which was mainly attributable to the decrease in percentage of profits in the coal segment largely entitled to preferential tax rates, the increase in percentage of profits in the power segments modestly entitled to preferential tax rates, and income tax paid as requested.

⑤ Profit for the period attributable to equity holders of the Company represented a year-on-year decrease of 6.8% in the first half of 2018, mainly attributable to the decrease of commercial coal production and the increase in purchased coal, and also the increase in the profits proportion of the power segment with relatively higher proportion of minority interest as well as the increase in income tax.

(4) *Items of cash flow statement*

The Group formulated capital management policies that aimed to achieve maximised interests for the shareholders and maintained a sound capital structure as well as reduced the costs of capital under the premise of safeguarding the operation on an on-going basis. In accordance with the policy of the Company, the capital was invested in infrastructure, mergers and acquisition and other projects.

① Net cash generated from operating activities: representing a year-on-year decrease of 33.0% in the first half of 2018, of which, net cash used in operating activities of Shenhua Finance Company was RMB3,111 million (the first half of 2017:RMB2,984 million generated from operating activities), representing a year-on-year change of 204.3%, which was mainly attributable to the net reduction of customer and interbank deposits, and the net increase of customer loans and advances. Excluding the effects of Shenhua Finance Company, net cash generated from operating activities of the Group represented a year-on-year decrease of 21.5%, which was mainly attributable to the increase of cost of purchased coal and fuel coals for power plants and income tax and other taxes paid during this reporting period compared to that during the same period in the previous year.

② Net cash used in investing activities: RMB8,433 million of net cash used in investing activities in the first half of 2018 (the first half of 2017: RMB1,949 million generated from investing activities), representing a year-on-year change of 532.7%, which was mainly attributable to the recovery of wealth management products due from the same period last year.

③ Net cash used in financing activities: representing a year-on-year decrease of 32.8% in the first half of 2018, which was mainly attributable to an increase of bank borrowings from power segment.

(5) *Investment in research and development*

Expensed research and development expenditure in the period *(RMB million)*	186
Capitalised research and development expenditure in the period *(RMB million)*	230
Total research and development expenditure *(RMB million)*	416
Ratio of capitalised research and development expenditure *(%)*	55.3
Percentage of total research and development expenditure to revenue *(%)*	0.3
Number of research and development personnel in the Company *(number of person)*	2,523
The ratio of research and development personnel to the total number of persons in the Company *(%)*	2.9

Section V Discussion and Analysis on Operation Results (Continued)

In the first half of 2018, the investment in research and development of the Group represented a year-on-year increase of 109.0% (the first half of 2017: RMB199 million), which was mainly used for projects such as research and demonstration engineering of a set of 8.8-meter height fully-mechanised smart mining equipment at Shendong Mines, development of related machinery equipment and comprehensive use of coal ash, research on mine hydrogeology, gas safety and fire prevention security technologies, etc.

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

The major changes in the composition of profit of the Group during the reporting period: the proportion of the profit from operations of the power segment increased while that of the coal segment decreased. Based on the profit from operations of all business segments before elimination on consolidation under the International Financial Reporting Standards the percentages of profits from operations of coal, power, transportation and coal chemical segments of the Group changed from 64%, 9%, 26% and 1% in the first half of 2017, to 58%, 14%, 27% and 1% in the first half of 2018 respectively. The changes in the proportion of the profit from operations of each of business segments were mainly attributable to: (1) increase in share of sales volume from purchased coal of which profitability is relatively lower; (2) increase in revenue of the power segment, and decrease in the unit cost of power output dispatch.

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

☐ Applicable ✓ Not applicable

(III) Analysis on Assets and Liabilities

1. Assets and Liabilities

Unit: RMB million

Name of items	Amount at the end of the period	Percentage of total assets at the end of the period %	Amount at the end of the previous year	Percentage of total assets at the end of the previous year %	Change of the amount at the end of the period compared to the end of the previous year %	Main reasons for changes
Inventories	**14,925**	**2.5**	11,647	2.0	28.1	Increase of coal inventories
Prepaid expenses and other current assets	**24,537**	**4.1**	20,452	3.6	20.0	Increase of volume of coal purchased, resulting in increase of prepayment and increase of loans and advances to be due and repaid within 1 year granted by Shenhua Finance Company

Section V Discussion and Analysis on Operation Results (Continued)

Unit: RMB million

Name of items	Amount at the end of the period	Percentage of total assets at the end of the period %	Amount at the end of the previous year	Percentage of total assets at the end of the previous year %	Change of the amount at the end of the period compared to the end of the previous year %	Main reasons for changes
Restricted bank deposits	**8,473**	**1.4**	7,348	1.3	15.3	Increase of reserves deposited in the Central Bank by Shenhua Finance Company
Time deposits with original maturity over three months	**2,472**	**0.4**	1,870	0.3	32.2	Maturity of time deposits
Cash and cash equivalents	**93,761**	**15.7**	71,872	12.6	30.5	Net inflow of operating cash and increase of bank loans
Short-term loans and long-term loans due within 1 year	**18,077**	**3.0**	15,785	2.8	14.5	Increase of short-term borrowings of power segment
Accounts and notes payable	**30,175**	**5.1**	33,914	5.9	(11.0)	Decrease of notes and accounts payable of power segment
Accrued expenses and other payables	**62,149**	**10.4**	51,995	9.1	19.5	As at the end of the reporting period, final dividends of 2017 have not been distributed, and increase of employees' remuneration payable

Section V Discussion and Analysis on Operation Results (Continued)

Unit: RMB million

Name of items	Amount at the end of the period	Percentage of total assets at the end of the period %	Amount at the end of the previous year	Percentage of total assets at the end of the previous year %	Change of the amount at the end of the period compared to the end of the previous year %	Main reasons for changes
Bonds due within 1 year	0	0.0	3,267	0.6	(100.0)	Maturity of some USD bonds
Income tax payable	3,117	0.5	5,604	1.0	(44.4)	Settlement of enterprise income tax during the reporting period
Long-term loans exclusive of the part due within 1 year	68,527	11.5	64,321	11.3	6.5	Increase of long-term borrowings of power generating projects under construction such as Guohua Indonesia Jawa-7 Coal Power Project
Reserves	292,124	49.0	285,651	50.0	2.3	Increase of retained earnings resulted from the profitability of the reporting period

2. **Restrictions on main assets as at the end of the reporting period**

The Group is free from seizure and detention of main assets. As at the end of the reporting period, restricted asset balance of the Group was RMB9,941 million. Statutory deposit reserve deposited in the Central Bank by Shenhua Finance Company was RMB5,859 million. Other restricted assets mainly consisted of various kinds of deposits, as well as note receivables, fixed assets and intangible assets of mortgage guarantee for issuing notes payable and receiving bank loans.

Assets for which the Group is subject to restrictions on ownership and right to use are as follows:

Unit: RMB million

Item	Book value at the end of the reporting period	Reasons for restriction
Monetary funds	8,473	Deposit reserves and various kinds of deposits
Notes receivable	10	Mortgage guarantee for issuing notes payable
Fixed assets	610	Mortgage guarantee for bank loans
Intangible assets	848	Mortgage guarantee for bank loans
Total	9,941	

(IV) Operation results by business segment

1. Coal segment

(1) Production and operations

The majority of the coal products produced and sold by the Group were thermal coal. In the first half of 2018, the Group overcame the adverse effect of the production reduction of some coal mines and optimized production arrangements. As a result, its commercial coal output achieved 145.8 million tonnes (the first half of 2017: 151.7 million tonnes), representing a year-on-year decrease of 3.9%. The total footage of advancing tunnels at underground mines was 176 thousand meters (the first half of 2017: 169 thousand meters), representing a year-on-year increase of 4.1%. Specifically, Shendong Mines recorded footage of advancing tunnels of 136 thousand meters. The world's first set of surface with high roof support at Shendong Mines with a height of 8.8 meters has been successfully put into trial operation. The construction of digital mines continued to advance, effectively reducing labor costs and improving the operating rate of underground electromechanical equipment. Zhunge'er Mines accelerated earthwork stripping operation. In the first half of this year, the Ha'erwusu Open-pit Mine recovered the production of commercial coal, with the output of 2.8 million tonnes.

In the first half of 2018, the Group's coal exploration expenses (which were incurred before the conclusion of feasibility study and represented the expenses related to exploration and evaluation of coal resources) amounted to approximately RMB10 million (the first half of 2017: RMB1 million), which was mainly attributable to the relevant expenses of Watermark Coal Project in Australia. The Company's relevant capital expenditure of mining development and exploration amounted to approximately RMB741 million (the first half of 2017: RMB334 million), which was mainly attributable to the expenditure related to coal mining and acquisition of fixed assets in Shendong Mines, Zhunge'er Mines and other Mines.

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

(2) Sales of coal

The coal sold by the Group is mainly produced in its self-owned mines. In order to fulfill the needs of customers and adequately make use of railways transportation, the Group also purchased the coal from third parties in the surrounding areas of the self-owned mines and railways and produced different kinds and levels of coal products and sold them to external customers. The Group implemented specialized division management. Production enterprises are responsible for production of coal, and Shenhua Trading Group is mainly responsible for sales of coal. Users are involved in different industries, such as power, metallurgy, chemical and construction materials. The Company adopted unified pricing policies in the annual long-term contracted sales of self-produced coal to the internal power segment, coal chemical segment and external customers.

Thus, the sales volume of coal of the Group amounted to 225.3 million tonnes in the first half of the year (the first half of 2017: 220.5 million tonnes), representing a year-on-year increase of 2.2%, among which the domestic sales volume of coal amounted to 222.5 million tonnes (the first half of 2017: 216.6 million tonnes), representing a year-on-year increase of 2.7%; the sales volume of seaborne coal amounted to 129.5 million tonnes (the first half of 2017: 131.8 million tonnes), representing a year-on-year decrease of 1.7%; the sales volume of purchased coal amounted to 79.8 million tonnes (the first half of 2017: 63.0 million tonnes), representing a year-on-year increase of 26.7%, accounting for 35.4% of the total sales volume of coal (the first half of 2017: 28.6%).

In the first half of the year, the Group further refined our pricing management system, actively adjusted the sales structure and increased sales premium by adopting electronic trading modes such as auction trade, which led to an average sales price of coal amounting to RMB432 per tonne (exclusive of tax) (the first half of 2017: RMB425 per tonne), representing a year-on-year increase of 1.6%.

After signing three-year (2019–2021) long-term contracts with six well-established power companies at the beginning of 2018, the Group further entered into three-year (2019–2021) long-term contracts with nine well-established power companies in July 2018, promoting the sustainable and healthy development of the upstream and downstream industries of coal-fired power and laying a good foundation for the Company to improve medium and long-term production and investment planning.

① *By sales regions*

	In the first half of 2018			In the first half of 2017			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	**222.5**	**98.8**	**431**	216.6	98.3	425	2.7	1.4
(I) Self-produced coal and purchased coal	**210.4**	**93.4**	**431**	209.5	95.1	425	0.4	1.4
1. Direct arrival	**81.9**	**36.4**	**315**	78.9	35.8	306	3.8	2.9
2. Seaborne	**128.5**	**57.0**	**505**	130.6	59.3	497	(1.6)	1.6
(II) Sales of domestic trading coal	**11.3**	**5.0**	**444**	6.6	3.0	417	71.2	6.5
(III) Sales of imported coal	**0.8**	**0.4**	**404**	0.5	0.2	580	60.0	(30.3)
II. Export Sales	**1.0**	**0.4**	**485**	1.2	0.5	399	(16.7)	21.6
III. Overseas coal sales	**1.8**	**0.8**	**519**	2.7	1.2	376	(33.3)	38.0
Total sales volume/ average price	**225.3**	**100.0**	**432**	220.5	100.0	425	2.2	1.6

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

In the first half of 2018, the sales volume of the Group to the top five domestic customers of coal was 43.7 million tonnes, which accounted for 19.6% of the domestic sales volume. In particular, the sales volume to the largest customer was 22.4 million tonnes, which accounted for 10.1% of the domestic sales volume. The top five domestic customers of coal were primarily power, coal and coal trading companies.

② *By internal and external customers*

	In the first half of 2018			In the first half of 2017			
	Sales volume *Million tonnes*	Proportion of total sales *%*	Price *RMB/ tonne*	Sales volume *Million tonnes*	Proportion of total sales *%*	Price *RMB/ tonne*	Change in price *%*
Sales to external customers	**178.1**	**79.1**	**443**	175.7	79.7	433	2.3
Sales to internal power segment	**45.1**	**20.0**	**392**	42.5	19.3	394	(0.5)
Sales to internal coal chemical segment	**2.1**	**0.9**	**357**	2.3	1.0	363	(1.7)
Total sales volume/average price	**225.3**	**100.0**	**432**	220.5	100.0	425	1.6

(3) Safety production

In the first half of 2018, the Group emphasized and improved safety management, strengthened responsibility performance and regulatory assessment, promoted the implementation of risk pre-control and job standard operation procedures, conducted specialized safety inspection with a focus on key potential issues, carried out major disaster prevention, and constantly reinforced our emergency response and rescue ability. There was no major or more serious safety accident occurred. In the first half of the year, the fatality rate per million tonne of coal mines of the Group was zero, enabling the Company to maintain its internationally leading position.

(4) Environmental protection

In the first half of 2018, the Group continued to push forward clean coal mining and strengthened the environmental protection control in the whole process of production to mitigate the impact of coal production on the environment to the largest extent. We implemented relevant laws and regulations, launched the construction and integration of various systems in energy conservation and environmental protection, constantly promoted wastewater standardizing, surface water treatment and comprehensive utilization of mine water, strengthened the comprehensive utilization of coal gangue, and continued to promote green mine construction projects. There was no major or more serious environmental safety incident occurred in the first half of the year.

As of 30 June 2018, balance of the "accrued reclamation obligations" of the Group amounted to RMB2,810 million, serving as strong financial guarantee for ecological construction.

(5) Coal resources

As at 30 June 2018, under the PRC Standard, the Group had coal resources amounting to 23.56 billion tonnes, representing a decrease of 140 million tonnes as compared with that of the end of 2017; and recoverable coal reserve amounting to 15.08 billion tonnes, representing a decrease of 110 million tonnes as compared with that of the end of 2017. The Group's marketable coal reserve amounted to 8.41 billion tonnes under the JORC Standard, representing a decrease of 140 million tonnes as compared with that of the end of 2017.

Unit: '00 million tonnes

Mines	Coal resources (under the PRC Standard)	Recoverable coal reserve (under the PRC Standard)	Marketable coal reserve (under the JORC Standard)
Shendong Mines	161.3	93.1	48.7
Zhunge'er Mines	39.4	31.5	21.0
Shengli Mines	20.4	13.9	2.2
Baorixile Mines	14.0	11.9	12.2
Baotou Mines	0.5	0.4	0.0
Total	235.6	150.8	84.1

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

No.	Mines	Major types of coal	Calorific value of major commercial coal products kcal/kg	Sulphur content average, %	Ash content average, %
1	Shendong Mines	Long flame coal/ noncaking coal	5,470	0.47	11.5
2	Zhunge'er Mines	Long flame coal	4,720	0.43	25.8
3	Shengli Mines	Lognite	3,028	0.77	22.3
4	Baorixile Mines	Lognite	3,610	0.21	14.5

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

(6) Operation results

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

		In the first half of 2018	In the first half of 2017	Change %	Main reasons for changes
Revenue	RMB million	**99,979**	96,031	4.1	Sales volume and price increase of coal
Cost of sales	RMB million	**74,624**	69,507	7.4	An increase in purchased coal volume
Gross profit margin	%	**25.4**	27.6	Decreased by 2.2 percentage points	
Profit from operations	RMB million	**23,250**	24,378	(4.6)	
Profit margin from operations	%	**23.3**	25.4	Decreased by 2.1 percentage points	

Section V Discussion and Analysis on Operation Results (Continued)

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

	In the first half of 2018				In the first half of 2017			
	Revenue	**Costs**	**Gross profit**	**Gross profit margin**	Revenue	Costs	Gross profit	Gross profit margin
	RMB million	*RMB million*	*RMB million*	*%*	*RMB million*	*RMB million*	*RMB million*	*%*
Domestic	**95,964**	**67,906**	**28,058**	**29.2**	92,142	62,313	29,829	32.4
Export and overseas	**1,405**	**1,200**	**205**	**14.6**	1,493	1,350	143	9.6
Total	**97,369**	**69,106**	**28,263**	**29.0**	93,635	63,663	29,972	32.0

③ *Unit production cost of self-produced coal*

Unit: RMB/tonne

	In the first half of 2018	In the first half of 2017	Change *%*	Main reasons for changes
Materials, fuel and power	**22.0**	17.3	27.2	Year-on-year decrease in coal output, increase in the consumption of materials for enhancing earthwork stripping in open-pit mines such as Ha'erwusu open-pit mine, and increased fuel price
Personnel expenses	**19.8**	16.7	18.6	Year-on-year decrease in coal production and wages rise in production units
Repairs and maintenance	**7.8**	6.2	25.8	Increase in repair arrangement made by Shendong Coal Corporation and Ha'erwusu Branch in accordance with the production conditions, and decrease in coal output
Depreciation and amortization	**20.1**	19.0	5.8	Year-on-year decrease in coal output
Other costs	**40.3**	41.0	(1.7)	
Unit production cost of self-produced	**110.0**	100.2	9.8	

Other costs consist of the following three components: (1) expenses directly related to production, including expenses for coal washing, selecting and processing expenses, and mining engineering expenses, etc., accounting for 54%; (2) auxiliary production expenses, accounting for 26%; (3) land requisition and surface subsidence compensation, environmental protection expenses, tax, etc., accounting for 20%.

Section V Discussion and Analysis on Operation Results (Continued)

④ *Cost of coal purchased from third parties*

The coal purchased from third parties by the Company includes coal purchased from the surrounding areas of the self-owned mines and railways, domestic trading coal, imported and re-exported coal. In the first half of 2018, cost of coal purchased from third parties was RMB27,863 million (the first half of 2017: RMB22,848 million), representing a year-on-year increase of 21.9%, which was mainly due to a significant year-on-year increase in the sales volume of purchased coal of the Group affected by the constantly strong demand in coal market.

2. Power segment

(1) Production and operations

In the first half of 2018, the Group took advantage of the favorable opportunity to proactively involve itself in power marketing trades, make its efforts to expand its market shares and improve the utilization rate of units. Power generation in the first half of this year amounted to 133.59 billion kWh (the first half of 2017: 122.05 billion kWh), representing a year-on-year increase of 9.5%; and total power output dispatch of 125.38 billion kWh (the first half of 2017: 114.43 billion kWh), representing a year-on-year increase of 9.6%, accounting for 3.9% of 3,229.1 billion kWh[1] of the total power consumption of society at the same period.

(2) Power output dispatch and power tariffs

① *Classified by power type*

	Gross power generation *billion kWh*			Total power output dispatch *billion kWh*			Power tariff *RMB/mWh*		
Power type	**In the first half of 2018**	In the first half of 2017	Change %	**In the first half of 2018**	In the first half of 2017	Change %	**In the first half of 2018**	In the first half of 2017	Change %
Coal-fired power	**130.81**	119.15	9.8	**122.67**	111.61	9.9	**307**	301	2.0
Gas-fired power	**2.50**	2.59	(3.5)	**2.43**	2.52	(3.6)	**567**	571	(0.7)
Hydropower	**0.28**	0.30	(6.7)	**0.28**	0.29	(3.4)	**243**	249	(2.4)
Wind power	**0.00**	0.01	(100.0)	**0.00**	0.01	(100.0)	**0**	598	(100.0)
Total	**133.59**	122.05	9.5	**125.38**	114.43	9.6	**312**	307	1.6

1 Source of date: China Electricity Council

② *Classified by location*

Location/Type of power	Power generation (billion kWh) In the first half of 2018	In the first half of 2017	Change (%)	Power output dispatch (billion kWh) In the first half of 2018	In the first half of 2017	Change (%)	Power tariff (RMB/mWh) In the first half of 2018	In the first half of 2017	Change (%)
Domestic in total/ weighted average	**132.80**	**121.28**	**9.5**	**124.69**	**113.76**	**9.6**	**311**	**306**	**1.6**
Hebei	**15.92**	**16.20**	**(1.7)**	**14.93**	**15.22**	**(1.9)**	**318**	**301**	**5.6**
Coal-fired power	**15.92**	16.20	(1.7)	**14.93**	15.22	(1.9)	**318**	301	5.6
Jiangsu	**11.20**	**12.64**	**(11.4)**	**10.70**	**12.07**	**(11.4)**	**313**	**314**	**(0.3)**
Coal-fired power	**11.20**	12.64	(11.4)	**10.70**	12.07	(11.4)	**313**	314	(0.3)
Zhejiang	**15.88**	**12.99**	**22.2**	**15.10**	**12.31**	**22.7**	**356**	**366**	**(2.7)**
Coal-fired power	**15.13**	12.09	25.1	**14.37**	11.43	25.7	**352**	349	0.9
Gas-fired power	**0.75**	0.90	(16.7)	**0.73**	0.88	(17.0)	**438**	584	(25.0)
Inner Mongolia	**10.72**	**9.44**	**13.6**	**9.65**	**8.52**	**13.3**	**219**	**208**	**5.3**
Coal-fired power	**10.72**	9.44	13.6	**9.65**	8.52	13.3	**219**	208	5.3
Guangdong	**14.46**	**11.26**	**28.4**	**13.62**	**10.51**	**29.6**	**348**	**360**	**(3.3)**
Coal-fired power	**14.46**	11.25	28.5	**13.62**	10.50	29.7	**348**	359	(3.1)
Wind power	**0.00**	0.01	(100.0)	**0.00**	0.01	(100.0)	**0**	598	(100.0)
Shaanxi	**12.57**	**12.44**	**1.0**	**11.49**	**11.38**	**1.0**	**265**	**258**	**2.7**
Coal-fired power	**12.57**	12.44	1.0	**11.49**	11.38	1.0	**265**	258	2.7
Anhui	**11.48**	**11.11**	**3.3**	**10.97**	**10.62**	**3.3**	**302**	**293**	**3.1**
Coal-fired power	**11.48**	11.11	3.3	**10.97**	10.62	3.3	**302**	293	3.1
Liaoning	**8.51**	**8.14**	**4.5**	**7.98**	**7.65**	**4.3**	**298**	**304**	**(2.0)**
Coal-fired power	**8.51**	8.14	4.5	**7.98**	7.65	4.3	**298**	304	(2.0)
Fujian	**6.31**	**5.43**	**16.2**	**6.02**	**5.18**	**16.2**	**336**	**324**	**3.7**
Coal-fired power	**6.31**	5.43	16.2	**6.02**	5.18	16.2	**336**	324	3.7
Xinjiang	**2.73**	**2.24**	**21.9**	**2.51**	**2.07**	**21.3**	**185**	**198**	**(6.6)**
Coal-fired power	**2.73**	2.24	21.9	**2.51**	2.07	21.3	**185**	198	(6.6)
Tianjin	**2.54**	**2.51**	**1.2**	**2.38**	**2.35**	**1.3**	**365**	**357**	**2.2**
Coal-fired power	**2.54**	2.51	1.2	**2.38**	2.35	1.3	**365**	357	2.2
Jiangxi	**0.21**	**0.00**	**N/A**	**0.20**	**0.00**	**N/A**	**317**	**0**	**N/A**
Coal-fired power	**0.21**	0.00	N/A	**0.20**	0.00	N/A	**317**	0	N/A
Henan	**2.07**	**2.82**	**(26.6)**	**1.95**	**2.67**	**(27.0)**	**292**	**304**	**(3.9)**
Coal-fired power	**2.07**	2.82	(26.6)	**1.95**	2.67	(27.0)	**292**	304	(3.9)
Sichuan	**2.05**	**1.60**	**28.1**	**1.90**	**1.46**	**30.1**	**352**	**333**	**5.7**
Coal-fired power	**1.77**	1.30	36.2	**1.62**	1.17	38.5	**371**	354	4.8
Hydropower	**0.28**	0.30	(6.7)	**0.28**	0.29	(3.4)	**243**	249	(2.4)
Ningxia	**4.29**	**1.46**	**193.8**	**3.98**	**1.29**	**208.5**	**224**	**224**	**0.0**
Coal-fired power	**4.29**	1.46	193.8	**3.98**	1.29	208.5	**224**	224	0.0
Chongqing	**2.79**	**1.94**	**43.8**	**2.67**	**1.85**	**44.3**	**343**	**330**	**3.9**
Coal-fired power	**2.79**	1.94	43.8	**2.67**	1.85	44.3	**343**	330	3.9
Beijing	**1.75**	**1.69**	**3.6**	**1.70**	**1.64**	**3.7**	**623**	**564**	**10.5**
Gas-fired power	**1.75**	1.69	3.6	**1.70**	1.64	3.7	**623**	564	10.5
Shanxi	**1.66**	**2.06**	**(19.4)**	**1.56**	**1.93**	**(19.2)**	**265**	**216**	**22.7**
Coal-fired power	**1.66**	2.06	(19.4)	**1.56**	1.93	(19.2)	**265**	216	22.7
Shandong	**4.72**	**4.41**	**7.0**	**4.50**	**4.19**	**7.4**	**330**	**296**	**11.5**
Coal-fired power	**4.72**	4.41	7.0	**4.50**	4.19	7.4	**330**	296	11.5
Guangxi	**0.94**	**0.90**	**4.4**	**0.88**	**0.85**	**3.5**	**355**	**350**	**1.4**
Coal-fired power	**0.94**	0.90	4.4	**0.88**	0.85	3.5	**355**	350	1.4
Overseas in total/ weighted average	**0.79**	**0.77**	**2.6**	**0.69**	**0.67**	**3.0**	**532**	**515**	**3.3**
Indonesia	**0.79**	**0.77**	**2.6**	**0.69**	**0.67**	**3.0**	**532**	**515**	**3.3**
Coal-fired power	**0.79**	0.77	2.6	**0.69**	0.67	3.0	**532**	515	3.3
Total/weighted average	**133.59**	**122.05**	**9.5**	**125.38**	**114.43**	**9.6**	**312**	**307**	**1.6**

Section V Discussion and Analysis on Operation Results (Continued)

(3) Installed capacity

At the end of the reporting period, the total installed capacity of power generation of the Group reached 58,769 MW, accounting for 3.4% of 1,730 million kW[1] of the total installed capacity of thermal power equipment of the whole society with capacity of 6,000kW or above. Among which, the total installed capacity of the coal-fired power generators is 56,914 MW, which was 96.8% of the total installed capacity of the Group.

Unit: MW

Power type	Gross installed capacity as at 31 December 2017	Installed capacity increased/ (decreased) during the reporting period	**Gross installed capacity as at 30 June 2018**
Coal-fired power	55,984	930	**56,914**
Gas-fired power	1,730	0	**1,730**
Hydropower	125	0	**125**
Wind power	16	(16)	**0**
Total	57,855	914	**58,769**

In the first half of the year, the changes in the installed capacity of power generators of the Group is as follows:

Company name	**Location of power generators**	**Increase/ (decrease) in installed capacity (MW)**	**Description**
Jiujiang Power	Jiangxi	1,000	New power generators put into operation
Fujian Energy Company	Fujian	100	Capacity expansion and upgrading
Zheneng Power	Zhejiang	30	Capacity expansion and upgrading
Shouguang Power	Shandong	20	Increase after review
Shenmu Power	Shaanxi	(220)	Closure
Zhuhai Wind Energy	Guangdong	(16)	Closure
Total		914	

1 Source of date: China Electricity Council

(4) *Utilization rate of power generation equipment*

In the first half of 2018, average utilization hours of coal-fired generators of the Group reached 2,364 hours, representing an increase of 179 hours as compared to 2,185 hours of the same period of last year, which was 180 hours higher than the average utilization hours of 2,184 hours[1] for coal-fired generators nationwide. The efficiency of power generation improved constantly and the average power consumption rate of the power plant decreased 0.10 percentage point as compared with the same period last year. As at the end of the reporting period, the installed capacity of circulating fluidized bed generating units of the Group reached 6,484 MW, which was 11.4% of the installed capacity of the coal-fired generating units of the Group.

	Average utilization hours *Hour*			Power consumption ratio of power plant *%*		
Power type	**In the first half of 2018**	In the first half of 2017	Change %	**In the first half of 2018**	In the first half of 2017	Change
Coal-fired power	**2,364**	2,185	8.2	**5.54**	5.65	Decreased by 0.11 percentage point
Gas-fired power	**1,442**	1,494	(3.5)	**1.89**	2.04	Decreased by 0.15 percentage point
Hydropower	**2,257**	2,363	(4.5)	**0.34**	0.29	Increased by 0.05 percentage point
Wind power	**0**	919	(100.0)	**0.00**	0.87	Decreased by 0.87 percentage point
Weighted average	**2,336**	2,164	7.9	**5.46**	5.56	Decreased by 0.10 percentage point

(5) *Environmental protection*

During the reporting period, the Group continued to promote development of clean coal power, implement the ultra-low-emission renovation of coal-fired generators. As of the end of the reporting period, 85 ultra-low-emission coal-fired generators with total capacities of 50,660 MW of the Group were newly constructed or upgraded, which was 89.0% of the total installed capacity of coal-fired power generator of the Group. The percentage of installed capacity of ultra-low-emission coal-fired generators continued to maintain its leading position in the industry.

The average standard coal consumption for power sold of coal-fired power generators of the Group for the first half of the year was 308 g/kWh, representing a decrease of 3 g/kWh as compared with 311 g/kWh of the same period last year.

(6) *Capitalized expenses*

In the first half of 2018, the completed capital expenditure of the power segment of the Group were RMB4,740 million, primarily used in Jawa-7 Coal Power Project (2 x 1,050MW) in Indonesia, Shenhua Guohua Jiangxi Jiujiang New Coal Reserve (Transit) and Power Generation Integration Project (2 x 1,000MW), Phase I of Shenwan Energy Company Lujiang Power Generation Project (2 x 660MW).

1 Source of date: China Electricity Council

Section V Discussion and Analysis on Operation Results (Continued)

(7) Operation results

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

		In the first half of 2018	In the first half of 2017	Change %	Main reasons for changes
Revenue	RMB million	**40,768**	36,432	11.9	Increase in power output dispatch and average sales price
Cost of sales	RMB million	**33,970**	31,769	6.9	Increase in coal-fired and other production costs caused by increased power generation
Gross profit margin	%	**16.7**	12.8	Increased by 3.9 percentage points	
Profit from operations	RMB million	**5,393**	3,237	66.6	
Profit margin from operations	%	**13.2**	8.9	Increased by 4.3 percentage points	

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

Unit: RMB million

	Revenue from sale of power			Cost of sale of power				
Power type	**In the first half of 2018**	In the first half of 2017	Change %	**In the first half of 2018**	**Percentage to total costs of power output dispatch of the first half of 2018 %**	In the first half of 2017	Percentage to total costs of power output dispatch of the first half of 2017 %	Change in the first half of 2018 over the first half of 2017 %
Coal-fired power	**38,811**	34,509	12.5	**31,883**	**95.9**	29,638	95.6	7.6
Gas-fired power	**1,378**	1,436	(4.0)	**1,341**	**4.0**	1,327	4.3	1.1
Hydropower	**67**	72	(6.9)	**34**	**0.1**	31	0.1	9.7
Wind power	**0**	8	(100.0)	**3**	**0**	4	0.0	(25.0)
Total	**40,256**	36,025	11.7	**33,261**	**100.0**	31,000	100.0	7.3

The Group's cost of sale of power mainly comprised such costs as raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortization and other cost. The unit cost of power output dispatch of the Group in the first half of 2018 was RMB265.3/mWh (the first half of 2017: RMB270.9/mWh), representing a year-on-year decrease of 2.1%. The decrease was mainly due to the dilution in fixed cost caused by the increase in the sales volume of power.

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

	In the first half of 2018		In the first half of 2017		Change in
	Costs	**Percentage**	Costs	Percentage	costs
	RMB million	*%*	*RMB million*	*%*	*%*
Raw material, fuel and power	**23,858**	**74.8**	21,258	71.7	12.2
Personnel expenses	**1,626**	**5.1**	1,760	5.9	(7.6)
Repairs and maintenance	**1,061**	**3.3**	976	3.3	8.7
Depreciation and amortization	**4,513**	**14.2**	4,557	15.4	(1.0)
Others	**825**	**2.6**	1,087	3.7	(24.2)
Total cost of power output dispatch of coal-fired power plant	**31,883**	**100.0**	29,638	100.0	7.6

The power segment consumed a total of 53.8 million tonnes of the China Shenhua's coal, accounting for 92.0% of the 58.5 million tonnes of the thermal coal consumption of the power segment of the Group in the first half of 2018 (the first half of 2017: 89.2%).

3. Railway segment

(1) Production and operations

In the first half of 2018, we constantly optimized our transportation organization, effectively secured coal transportation, proactively implemented macroscopic logistic strategy under the railway segment, and endeavored to foster the transportation for commodities other than coal. Therefore, volume of transportation business hit a record high for the same period and the production, transportation and sale of coal further showcased the synergy among them. Transportation volume achieved a steady growth in major railways with transportation turnover of self-owned railways of 138.6 billion tonne km (the first half of 2017: 136.4 billion tonne km), representing a year-on-year increase of 1.6%.

The transportation volume recorded under the railway segment for external customers of the Group experienced a continuous growth in terms of coal and non-coal transportation services, which cover nearly 30 kinds of goods such as iron ore, chemical fertilizer and kaolin. In the first half of the year, transportation capacity of railway transportation service provided to external customers under the railway segment reached 106.6 million tonnes (the first half of 2017: 103.7 million tonnes), representing a year-on-year increase of 2.8%; the turnover of providing railway transportation services to external customers amounted to 14.6 billion tonne km (the first half of 2017: 14.2 billion tonne km), representing a year-on-year increase of 2.8%; the revenue generated from providing transportation services for external customers amounted to RMB2,802 million (the first half of 2017: RMB2,679 million), representing a year-on-year increase of 4.6%.

Section V Discussion and Analysis on Operation Results (Continued)

(2) Progress of projects

During the reporting period, the construction work of Huangda Railway continued to move forward. We successively carried out land acquisition, checking and measurement, etc. in the railway in Hebei section and completed 70 kilometers for the rail-laying in the main track of the railway in Shandong section, accounting for 35% of the designed total.

(3) Operation results

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

		In the first half of 2018	In the first half of 2017	Change %	Main reasons for changes
Revenue	RMB million	**19,141**	18,506	3.4	Increase in transportation turnover of railways and revenue from other businesses
Cost of sales	RMB million	**9,630**	9,637	(0.1)	Increase in transportation turnover of railways, increase of repair of motor cars, leading to increase in external transportation fees
Gross profit margin	%	**49.7**	47.9	Increased by 1.8 percentage points	
Profit from operations	RMB million	**9,029**	8,409	7.4	
Profit margin from operations	%	**47.2**	45.4	Increased by 1.8 percentage points	

In the first half of 2018, revenue generated from internal transportation services provided by the railway segment for the Group amounted to RMB16,339 million (the first half of 2017: RMB15,827 million),representing a year-on-year increase of 3.2%, accounting for 85.4% of the revenue of the railway segment (the first half of 2017: 85.5%).

In the first half of 2018, the unit transportation cost in the railway segment was RMB0.065/tonne km (the first half of 2017: RMB0.066/tonne km), representing a year-on-year decrease of 1.5%.

4. Port segment

(1) *Production and operations*

In the first half of 2018, the port segment strengthened technological innovation, green development and energy efficiency, coordinated the scheduling and transportation of upstream and downstream logistics, improved the efficiency of unloading and berth, and ensured integrated and stable operation.

The proportion of seaborne coal sales through self-owned ports remained at a relatively high level according to the principle of maximization of overall efficiency. The volume of seaborne coal via self-owned ports accounted for 88.6% of the total volume of seaborne coal of the Group (the first half of 2017: 85.7%). The seaborne coal sales via Huanghua Port was 92.0 million tonnes (the first half of 2017: 91.7 million tonnes), representing a year-on-year increase of 0.3%. The seaborne coal sales via Shenhua Tianjin Coal Dock was 22.7 million tonnes (the first half of 2017: 21.2 million tonnes), representing a year-on-year increase of 7.1%.

(2) *Environmental protection*

We actively advanced the construction of green ecological ports, implemented many projects including long-lasting dust suppression project, dust treatment system project, automatic sprinkling project of pile feeders and belt return dust removal project relying on independent innovation, and innovatively built an ecological water system.

(3) *Operation results*

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

		In the first half of 2018	In the first half of 2017	Change %	Main reasons for changes
Revenue	RMB million	2,982	2,797	6.6	Increase in port operations
Cost of sales	RMB million	1,413	1,354	4.4	Increase in fuel and power costs caused by the increase in port operations
Gross profit margin	%	52.6	51.6	Increased by 1.0 percentage point	
Profit from operations	RMB million	1,443	1,329	8.6	
Profit margin from operations	%	48.4	47.5	Increased by 0.9 percentage point	

The revenue generated from the internal transportation services provided by the port segment to the Group amounted to RMB2,616 million for the first half of 2018 (the first half of 2017: RMB2,425 million), representing a year-on-year increase of 7.9% and accounting for 87.7% (the first half of 2017: 86.7%) of the revenue of the port segment. Costs of internal transportation services provided for the Group amounted to RMB1,164 million.

5. Shipping segment

(1) Production and operations

The shipping segment actively coordinated with coal sales activities to contribute to the integrated operation, expanded external development of annual high-profile customer base, coordinated the arrangement of capacity and increased the operation number of "quasi-liner shipping" while a substantial increase was recorded in business volume. In the first half of 2018, shipping volume amounted to 51.6 million tonnes (the first half of 2017: 46.0 million tonnes), representing a year-on-year increase of 12.2%, while shipment turnover amounted to 45.1 billion tonne nautical miles (the first half of 2017: 39.9 billion tonne nautical miles), representing a year-on-year increase of 13.0%.

(2) Operation results

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

		In the first half of 2018	In the first half of 2017	Change %	Main reasons for changes
Revenue	RMB million	**2,034**	1,448	40.5	Increase in shipping costs and shipping turnover
Cost of sales	RMB million	**1,526**	1,121	36.1	Increase in shipping volume, relevant costs for shipping by chartering, as well as oil prices
Gross profit margin	%	**25.0**	22.6	Increased 2.4 percentage points	
Profit from operations	RMB million	**451**	270	67.0	
Profit margin from operations	%	**22.2**	18.6	Increased by 3.6 percentage points	

In the first half of 2018, the unit transportation cost of the shipping segment was RMB0.034/tonne nautical mile (the first half of 2017: RMB0.028/tonne nautical mile), representing a year-on-year increase of 21.4%, primarily due to the increase in the costs for shipping by chartering and oil prices.

6. Coal chemical segment

(1) Production and operations

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

The sales of polyethylene and polypropylene products of the Group in the first half of 2018 is as follows:

	In the first half of 2018		In the first half of 2017		Change	
	Sales volume	**Price**	Sales volume	Price	Sales volume	Price
	Thousand tonnes	*RMB/tonne*	*Thousand tonnes*	*RMB/tonne*	*%*	*%*
Polyethylene	**171.6**	**7,509**	171.8	7,458	(0.1)	0.7
Polypropylene	**160.3**	**6,997**	170.4	6,356	(5.9)	10.1

(2) Project development

The Baotou coal-to-olefins upgrading demonstrative project (phase II) has obtained approval from Development and Reform Commission of Inner Mongolia Autonomous Region. On 4 April 2018, the project's soil and water conservation plan report was approved by the Water Resources Department of Inner Mongolia Autonomous Region. The date of commencement has not been determined.

(3) Operation results

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

		In the first half of 2018	In the first half of 2017	Change (%)	Main reasons for changes
Revenue	RMB million	**3,032**	2,996	1.2	Increase in price of olefins products
Cost of sales	RMB million	**2,607**	2,612	(0.2)	Decrease in production volume of olefins products, leading to decrease in sales cost of relevant by-products
Gross profit margin	%	**14.0**	12.8	Increased by 1.2 percentage point	
Profit from operations	RMB million	**342**	319	7.2	
Profit margin from operations	%	**11.3**	10.6	Increased by 0.7 percentage point	

(4) Unit production cost of main products

	In the first half of 2018		In the first half of 2017		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	**170.6**	**6,096**	173.6	5,840	(1.7)	4.4
Polypropylene	**159.1**	**5,926**	167.0	5,667	(4.7)	4.6

All the coals consumed by the coal chemical segment were the China Shenhua's coals. The coals consumed in the first half of 2018 were 2.1 million tonnes, representing an decrease of 8.7% as compared with 2.3 million tonnes for the same period last year.

(V) Regional operation analysis

Unit: RMB million

	In the first half of 2018	In the first half of 2017	Change %
Revenue from external transactions in domestic markets	**125,834**	118,819	5.9
Revenue from external transactions in overseas markets	**1,546**	1,699	(9.0)
Total	**127,380**	120,518	5.7

Note: Revenue from external transactions was classified based on the locations where the services were provided or the products were purchased.

The Group is mainly engaged in the production and sales of coal and power, railway, port and shipping transportation as well as coal-to-olefins businesses in the PRC. In the first half of 2018, the revenue from external transactions in domestic markets was RMB125,834 million, accounting for 98.8% of the Group's revenue. Affected by increase of coal sales volume and power sales volume in the country, revenue from external transactions in domestic markets increased by 5.9% year-on-year.

In the first half of 2018, the Group proactively responded to the promotion of the "Belt and Road Initiative" of the state by putting more efforts in international exploration. The operation of Guohua Sumsel Coal Power Project (Phase I) (2 x 150MW) in Indonesia was running safely and steadily. The construction of Jawa-7 Coal Power Project (2 x 1,050MW) in Indonesia has been proceeding steadily. During the reporting period, the shale gas project in Pennsylvania of the United States has produced gas volume of approximately 107 million m^3 attributable to the proportionate interest of China Shenhua. The Watermark Opencast Coal Mine Project in Australia has finished preliminary designs, renewal exploration rights, etc. Other overseas projects are commencing under the principle of stability and prudence.

(VI) Analysis on investments

1. Overall analysis of external equity investments

The equity investments of the Company in the first half of 2018 amounted to RMB2,285 million (the first half of 2017: RMB2,223 million), representing a year-on-year increase of 2.8%, which included mainly equities transferred to the Company of Baode Shendong Power Generation Co., Ltd., Shenhua Shendong Power Shanxi Hequ Power Generation Co., Ltd. and Shenhua Shendong Power Xinjiang Zhundong Wucaiwan Power Generation Co., Ltd., owned 91.3%, 80% and 100% respectively by Shendong Power Company, a wholly-owned subsidiary of the Company.

2. Material investment in equity interest

☐ Applicable ✓ Not applicable

3. Material investment in non-equity interest

☐ Applicable ✓ Not applicable

4. Financial assets (liabilities) at fair value

As at the end of the reporting period, the Group's other current financial assets at fair value were floating-return type of entrusted wealth management held by Shenhua Finance Company, with the initial investment cost of RMB100 million. Derivative financial instrument at FVTPL were forward foreign currency contracts of part of the hedged US dollar liabilities of the Group. As of the end of the reporting period, the balance of the Group's hedged US dollar liabilities amounted to RMB9,925 million. Financial assets at FVTOCI were the unlisted equity instrument investment held by the Group with no significant impact on the investee.

Please refer to section II of this report for the amount and changes of financial assets (liabilities) at fair value.

(VII) Disposal of material assets and equity interest

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

(VIII) Analysis on major holding and associated companies

1. Major subsidiaries

Unit: RMB million

No.	Company	Registered capital	Total assets	Net assets	Net profit attributable to the equity holders of the parent company			
		As at 30 June 2018			In the first half of 2018	In the first half of 2017	Change %	Main reasons for changes
1	Shendong Coal Corporation	4,989	47,182	32,209	8,291	8,064	2.8	
2	Shuohuang Railway Development Company	5,880	42,585	35,197	3,820	3,787	0.9	
3	Shenhua Trading Group	1,889	28,314	8,076	1,658	1,011	64.0	Increase in coal sales volume
4	Jinjie Energy	2,278	11,315	9,601	1,624	1,528	6.3	
5	Zhunge'er Energy Company	7,102	37,786	29,773	1,469	1,356	8.3	
6	Baotou Energy Company	2,633	5,544	4,797	797	447	78.3	Increase in coal sales volume
7	Huanghua Harbour Administration Company	6,790	15,990	10,783	785	750	4.7	
8	Shenbao Energy Company	1,169	8,026	4,620	742	431	72.2	Increase in coal prices
9	Zheneng Power	3,255	11,546	6,065	721	349	106.6	Increase in power sales volume
10	Railway Transportation Company	4,803	21,865	7,013	555	510	8.8	

Notes: 1. The financial information of the major subsidiaries disclosed in the above table (before assessment and unadjusted before consolidation) was prepared in accordance with the Accounting Standards for Business Enterprises. The data has not been audited or reviewed.

2. Shendong Coal Corporation recorded a revenue of RMB29,598 million and a profit from operations of RMB9,791 million in the first half of 2018.

3. Shuohuang Railway Development Company recorded a revenue of RMB9,585 million and a profit from operations of RMB5,121 million in the first half of 2018.

Details regarding the Company's acquisition of subsidiaries are set out in Equity in other entities of Appendix VI to the financial statements of this report.

2. Shenhua Finance Company

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

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

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

For the unaudited balance sheet and income statement of Shenhua Finance Company for the first half of 2018, please refer to the H-shares announcement of the Company dated 13 July 2018 and the A-shares announcement of the Company dated 14 July 2018.

(IX) Structured Entities Controlled by the Company

☐ Applicable ✓ Not applicable

(III) DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

(I) Competition and Development Trend in the Industry

1. Macro economy

In the first half of 2018, China's national economy maintained stable development and moved forward steadily. In the first half of the year, the Gross Domestic Product (GDP) was recorded a year-on-year increase of 6.8%. The Consumer Price Index (CPI) was recorded a year-on-year increase of 2.0%, representing an increase of 0.6 percentage point in increase rate compared with the same period of last year. The Producer Price Index for Industrial Products (PPI) was recorded a year-on-year increase of 3.9%.

In the second half of the year, facing an environment abroad filled with uncertainties and a critical period of domestic structural adjustment, the PRC government will continue to adhere to the general principle of making progress while ensuring stability. With the key target of promoting the supply-side structural reform, it will continuously expand the overall effective demand and strive to revive the real economy, proactively respond to external challenge, prevent and solve potential risks as well as maintain stability for the economy and society.

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

2. Market environment of the coal industry

(1) *Thermal coal market in the PRC*

Review of the first half of 2018

In the first half of 2018, demand for coal in China has been increasing continuously, while supply has also been strengthened. The demand and supply maintained balanced in general, with relatively tight supply in partial period and regions. Price fluctuations of the coal market remained at reasonable range. As of 30 June, the price index of Bohai Bay thermal coal (5,500 kcal) was RMB570/tonne, decreasing by RMB8/tonne compared with the beginning of the year (RMB578/tonne). In the first half of 2018, the average value of Bohai Bay thermal coal (5,500 kcal) price index was RMB573/tonne, representing a year-on-year decrease of 3.0%.

	January to June 2018	Change *(%)*
Raw coal output *(million tonnes)*	**1,697**	3.9
Coal import *(million tonnes)*	**146.2**	9.9
Coal transportation by railway *(million tonnes)*	**1,170**	10.1

In the first half of 2018, raw coal production in the PRC was 1,697 million tonnes, representing a year-on-year increase of 3.9%. Among the above increase, Inner Mongolia accounted for 440 million tonnes, representing a year-on-year increase of 5.6%; Shanxi accounted for 420 million tonnes, representing a year-on-year increase of 1.2%; Shaanxi accounted for 290 million tonnes, representing a year-on-year increase of 15.9%. In the first half of 2018, the accumulative coal import amounted to 146 million tonnes, representing a year-on-year increase of 9.9%.

The consumption volume of coal in the PRC represented a year-on-year increase of approximately 3.1%. Among the main coal-consuming downstream industries, coal for power generation has witnessed a year-on-year major growth, while coal for chemical use has seen a year-on-year minor growth, coal consumption of steel and building material industries presented a year-on-year decline.

The coal transportation volume through railways in China was 1,170 million tonnes during the year, representing a year-on-year increase of 10.1%. Coal outbound shipment through Bohai-Rim ports was 352 million tonnes, representing a year-on-year increase of 12.50 million tonnes.

On 30 June 2018, coal inventory of the six major power generation corporations amounted to 14.81 million tonnes, represented an increase of 14.5% as compared to the same period of 2017; available for 18.78 days of use, representing a year-on-year decrease of 2.68 days.

Prospects for the second half of the year

In the second half of 2018, although the macroeconomy will operate stably with slight changes, and the Chinese economy will encounter new problems and challenges, the PRC government will adhere to general principle of seeking improvement in stability, which will be beneficial to the support of stability and growth of coal demand.

From the perspective of the supply-side, as output from mining areas normalised, high-quality capacity released and railway transportation effectively increased, coal supply capacities will still be strengthened. From the perspective of the policies, state policy facilitating the return to reasonable levels of coal price has been precise. Following an increase in supply and the guidance of state policies, tight coal supply in prior periods is expected to be alleviated, price of coal is expected to remain within reasonable range.

(2) Thermal coal market in the Asia Pacific region

Review of the first half of the year

In the first half of 2018, both coal demand and supply in the Asia Pacific region thrived with a relatively tight supply. International coal price fluctuated and increased. With regard to the import volume, demand increased in general in the region, of which China has increased import of coal for about 13 million tonnes, representing a year-on-year increase of 9.9%.

Supply in the global coal market has recovered. Indonesia, Australia and Russia remained as the major export countries of thermal coal.

As of 30 June, the spot price of Newcastle NEWC thermal coal amounted to USD117.26 per tonne, maintaining at the high level since February 2012, represented an increase of USD12.32 per tonne as compared to the start of the year, and a year-on-year increase of USD34.80 per tonne.

Prospects for the second half of the year

In the second half of the year, primary energy demand for coal of emerging economies such as India and Southeast Asia will be thriving, while development of nuclear power in Japan and Korea will be staggering, and installed capacity of coal power generation will increase. Coal demand is expected to keep growing.

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

It is anticipated that the global coal supply and demand will appear slightly tight but remained balanced, while the price of thermal coal will fluctuate along with season variations.

3. Market environment of the power industry

Review of the first half of the year

In the first half of 2018, nationwide demand and supply of power was generally at ease, but was obviously tighter than the previous two years. In certain areas, regional and intermittent tension in power supply existed.

The power consumption in the nation remained at a relatively rapid growth. Affected by various factors including steady improvement trend of macro economy, the weather and the upgrade of household consumption structure, power consumption of the whole society amounted to 3,229.1 billion kWh, representing a year-on-year increase of 9.4% and an increase of 3.1 percentage points in growth rate as compared with the same period last year. Power consumed by the three major industries and residents maintained a relatively high growth rate. Power consumption of the primary industry recorded a year-on-year increase of 10.3%, while the power consumption of secondary industry recorded a year-on-year increase of 7.6%, the power consumption of tertiary industry recorded a year-on-year increase of 14.7%, the power consumption of urban and rural residents recorded a year-on-year increase of 13.2%.

Power generation volume in the nation has maintained at a relatively positive standard. In the first half of 2018, power generation volume of power plants with above national scale amounted to 3,194.5 billion kWh, representing a year-on-year increase of 8.3%, among which the volume of thermal power generation amounted to 2,388.7 billion kWh, representing a year-on-year increase of 8%. Average utilization hours of thermal power generators were 2,126 hours, representing a year-on-year increase of 116 hours.

The installed capacity of the power generators of thermal power and non-fossil energy recorded a significant growth. In the first half of 2018, the new installed capacity was 52.11 million KW. Of which, 73.5% of the total newly added installed capacity were from generators powered by non-fossil energy, with a record high capacity of 38.27 million KW; newly added capacity from coal-fired generators was 9.98 million KW, representing a year-on-year decrease of 10.3%. As at the end of June 2018, the power generators of power plants nationwide with an installed capacity of 6,000 KW or above reached 1.73 billion KW.

From the perspective of regions, there was a balanced demand and supply of power in northern, eastern and central regions, with tighter supply in some areas during peak hours; there was also a balanced demand and supply in southern regions, but difference between provinces was apparent; power supply in northeastern and northwestern regions was surplus.

Prospects for the second half of the year

In consideration of factors including the macro economy, development of the service industry and weather, it is expected that the demand of power will remain at a growing momentum. Power supply across the country is balanced in general, with tight supply in certain regions during peak hours. The growth in installed capacity of coal power generators continued to slow down, while development of the installed capacity of power generation by non-fossil energy maintained relatively rapid, with its proportion further increased. It is expected that average utilisation hours of power generation equipment nationwide for the year will be better than expected at the beginning of the year, among which average utilisation hours of thermal equipment increased slightly as compared with that of the previous year.

(II) Status of Accomplishment of 2018 Business Targets

		Targets of 2018	**Accomplishment in the first half of 2018**	Percentage of accomplishment in the first half of 2018 %
Commercial coal	100 million tonnes	2.9	**1.458**	50.3
Coal sales	100 million tonnes	4.3	**2.253**	52.4
Total power output dispatch	100 million kWh	2,486	**1,253.8**	50.4
Cost of sales	RMB100 million	2,493	**1,273.80**	51.1
Cost of operation	RMB100 million	1,684	**826.42**	49.1
Selling, general and administrative expenses and net finance costs	RMB100 million	138	**65.67**	47.6
Amount of change in unit production cost of the self-produced coal	/	Year-on-year increase approximately 8%[Note]	**Year-on-year increase of 9.8%**	/

Note: Adjustment is made in accordance with the authorisation as resolved in the tenth meeting of the fourth session of the Board of the Company.

The above business targets are subject to risks, uncertainties and assumptions. The actual outcome may differ materially from these statements. Such statements do not constitute substantial commitments to investors. Investors should be aware that undue reliance on or use of such information may lead to investment risks.

(III) Completion of Capital Expenditures Plans for 2018

Unit: RMB'00 million

		Plans for 2018 Total	Among which: recognised investment items	**Accomplishment in the first half of 2018**	Percentage of Accomplishment %
1.	Coal segment		25.5	**14.9**	58.4
2.	Power segment		105.0	**47.4**	45.1
3.	Transportation segments	290	52.5	**12.8**	24.4
4.	Coal chemical segment		2.6	**0.6**	23.1
5.	Others		1.1	**0.1**	9.1
Total		290	186.7	**75.8**	40.6

In the first half of 2018, total amount of capital expenditure of the Group was RMB7.58 billion, primarily used for construction of power projects such as the Guohua Indonesia Jawa-7 Coal Power Project (2×1,050MW), Shenhua Guohua Jiangxi Jiujiang New Coal Reserve (Transit) and Power Generation Integration Project (2×1,000MW), Phase I of Shenwan Energy Company Lujiang Power Plant Power Generation Project (2×660MW), the project of coal transportation station construction and coal preparation plant expansion, the construction of Huangda Railway, ten thousand tonnes of column expansion, etc.

The capital expenditure plans of the Group in 2018 are subject to the development of business plans (including potential acquisitions), progress of capital projects, market conditions, outlook for future operation environment and the obtaining of the requisite permissions and approval documents. Unless required by laws, the Company shall not assume any responsibilities for updating the data of its capital expenditure plans. The Company intends to finance its capital expenditures by cash generated from operating activities, short-term and long-term borrowings, and other debt and equity financing.

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

☐ Applicable ✓ Not applicable

(V) Potential risks

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

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

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

The PRC will continue to promote the supply-side structural reform, and actively promote the mitigation of overcapacity in coal industry. The environmental restriction requires control of coal consumption, while structural adjustment in the industry will reduce energy consumption. With speedy advancement of the structural reform in power industry, planned power output will be gradually liberalised and the competition in power generation market will be unceasingly intensified. The state has sped up the interprovincial construction of coal transporting railways, proactively promoted railway or waterborne transport as the replacement of road transport.

The Group will further conduct researches on the development trend of relevant industries, optimise industry structure, implement clean energy strategies and continue to improve development quality. (1) In terms of marketing and sales, the Group will adhere to the decisive role of market in resources allocation, arrange sales in balance in accordance with the relevant national policies, optimise coal product structures and increase sale share of high value-added special coal; comprehensively enhance the quality and efficiency of power business development and strengthen marketisation of power. (2)In terms of environmental protection, the Group will step up on the construction of risk prevention system, speed up the construction of environmental monitoring system, and start investigations on environmental hazards so as to prevent risk of environmental protection at source. Carrying through the implementation of requirements as set out in the "Opinions on Strengthening the Protection of the Ecological Environment in All Aspects and Firmly Winning the Battle of the Preventing and Controlling Environmental Pollution", "Three-Years Plan on Winning the Battle for Protecting the Blue Sky"(《打贏藍天保衛戰三年行動計劃》) along with "Air Pollution Prevention and Control Action Plan in Beijing, Tianjin, Hebei and Surrounding Regions for 2018-2019 Autumn and Winter Seasons", creating a brand with clean coal, green transportation and ultra-low emission of coal power. (3) In terms of international operation, the Group will actively respond to the "Belt and Road Initiative" of the country and continuously expand the external cooperation. The Group will strengthen analysis and research on information before making decision on investment in overseas projects, and conduct resource evaluation and overseas project assessment to ensure economic feasibility, while nurturing and introducing multi-skilled talents to provide strong support to "go global". The Group adopted effective prevention of foreign-currency debt exchange rate and interest rate risks, it has set up financial derivative instrument business plan for 2018, and commenced derivative instrument trading business according to the market condition and actual demand.(4)In response to the risk of natural disaster, the Group will further enhance warning for substantial natural disasters, optimise climate change risk assessment, formulate emergency plan, equip with necessary resources, and conduct relevant emergency drills, so as to minimise the impact of natural disasters.

Section VI Significant Events

I. GENERAL MEETINGS

Meetings	Date	Inquiry index of the designated website for publishing the voting results	Date of disclosure of the publication of the voting results
The first extraordinary shareholders meeting in 2018	27 April 2018	Website of Shanghai Stock Exchange	28 April 2018
2017 Annual General Meeting	22 June 2018	Website of Shanghai Stock Exchange	23 June 2018

On 27 April 2018, the Company convened the first extraordinary shareholders meeting in 2018, at which all the resolutions tabled at the first extraordinary shareholders meeting were passed. The voting results were disclosed on the website of the Hong Kong Stock Exchange on 27 April 2018 and the website of Shanghai Stock Exchange on 28 April 2018.

On 22 June 2018, the Company convened the 2017 Annual General Meeting, at which all the resolutions tabled at the general meeting above were passed. The voting results were disclosed on the website of the Hong Kong Stock Exchange on 22 June 2018 and the website of the Shanghai Stock Exchange on 23 June 2018.

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

The shareholders' representative, supervisors' representative, witness lawyers and the representative of Computershare Hong Kong Investor Services Limited acted as scrutineers at each general meetings. The PRC legal advisor of the Company issued the legal opinions. Representatives of the auditors were present at the 2017 Annual General Meeting and announced their audit opinions.

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

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

Whether to be distributed or converted: No

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

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

On 22 June 2018, it was approved at the 2017 Annual General Meeting of the Company to distribute the 2017 final dividends of RMB0.91 per share (inclusive of tax), amounting to RMB18.100 billion in aggregate (inclusive of tax), to all shareholders. As of the date of disclosure of the report, the distribution of the aforesaid dividends has been completed. The distribution of the 2017 final dividend complied with the requirements of the resolutions passed at the general meeting.

III. PERFORMANCE OF COMMITMENTS

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

Background of Commitment	Type of Commitment	Covenantor	Commitment	Date and Duration of Commitment	Any Time Limit for Commitment	Timely and Strict Performance of Commitment	Detailed reasons shall be specified if commitment is not fulfilled in time	Further steps shall be specified if Commitment is not fulfilled in time
Undertaking made in connection with initial public offering	Non- competition undertaking	China Energy	Both parties entered into a "Non-competition Agreement" on 24 May 2005. The legacy Shenhua Group Corporation committed to not to compete with the Company's principal business inside and outside of the PRC; and granted the Company options and preemptive rights as well as pre-emptive right to acquire and be transferred from original Shenhua Group Corporation any business opportunities and assets which may pose potential competition.	24 May 2005, long-term	Yes	Yes in process	N/A	N/A

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

On 1 March 2018, the Resolution on the Supplementary Agreement to Non-competition Agreement Conditionally Signed with China Energy Investment Co., Ltd. in respect of amendments to the scope of non-competition businesses and assets, as well as the commencement time of acquisition, etc., was considered and passed at the 9th meeting of the fourth session of the Board; and was approved by China Shenhua at 2018 First Extraordinary General Meeting on 27 April 2018. The Supplementary Agreement to Non-competition Agreement will be effective upon satisfaction of all conditions precedent to the closing of the restructuring and merger between China Energy Group and China Guodian. For details, please refer to the H-share announcement dated 1 March 2018 and the A-share announcement of the Company dated 2 March 2018.

IV. APPOINTMENT AND REMOVAL OF AUDITORS

1. Description of appointment and removal of auditors

On 22 June 2018, Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu were appointed as the A-shares and H-shares auditors of the Company respectively for 2018 at the Company's 2017 Annual General Meeting.

2. Change in appointment of auditors during the audit period

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

V. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

☐ Applicable ✓ Not applicable

VI. MATERIAL LITIGATION AND ARBITRATION

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

As at 30 June 2018, the Group was the defendant or the party of certain non-material litigations. The management of the Group believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

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

☐ Applicable ✓ Not applicable

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

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

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

☐ Applicable ✓ Not applicable

X. MATERIAL CONNECTED TRANSACTIONS

(I) Connected transactions during the daily operation

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

1. Adjustment to transaction caps during the reporting period

As approved at the first extraordinary shareholders meeting in 2018 of the Company, the Company adjusted 2018 and 2019 transaction caps for some daily connected transactions. Please refer to H Shares Announcement dated 27 April 2018 and A Shares Announcement dated 28 April 2018 of the Company for details.

2. Implementation of agreements during the reporting period

The following are the agreed annual caps for major discloseable continuing connected transactions effective during the reporting period and their implementation. For details on the purposes of entering into these continuing connected transactions, please refer to the 2017 annual report.

Section VI Significant Events (Continued)

In particular, the connected transactions regarding the provision of products and labour services by the Group to China Energy Group amounted to a total of RMB6,872 million during the reporting period, accounting for 5.4% of the Group's revenue during the reporting period.

Agreement	**Provision of products and services by the Group to connected persons and other inflows**			**Purchase of products and services from connected persons by the Group and other outflow**		
	Prevailing 2018 annual cap *RMB million*	**Transaction amount during the reporting period** ***RMB million***	Proportion in the same type of transaction *%*	Prevailing 2018 annual cap *RMB million*	**Transaction amount during the reporting period** ***RMB million***	Proportion in the same type of transactions *%*
1. Mutual Coal Supply Agreement between the Group and China Energy Group	65,500	**3,918**	5.1	20,700	**3,697**	13.3
2. Mutual Supplies and Services Agreement between the Group and China Energy Group	13,000	**2,954**	–	23,500	**1,291**	–
Including: (1) Products		**2,846**	6.5		**695**	3.0
(2) Services		**108**	2.0		**596**	4.8
3. Transportation Service Framework Agreement between the Company and Taiyuan Railway Bureau	1,700	**1**	0	14,000	**1,598**	21.5

Agreement	Prevailing 2018 annual cap *RMB million*	**Transaction amount during the reporting period** ***RMB million***
4. Financial Services Agreement between the Group and China Energy Group		
(1) Total amount of providing financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to members of China Energy Group	4,420	**0**
(2) Annual total transaction amount of bill acceptance and discount service	10,400	**36**
(3) Maximum daily balance (including interests accrued thereon) of deposits placed by members of China Energy Group	58,500	**18,472**
(4) Maximum daily balance of loans, consumption credit, buyer's credit and finance leasing (including relevant accrued interests incurred) granted to members of China Energy Group	28,600	**16,301**
(5) Maximum daily balance of entrusted loans (including relevant accrued interests incurred) advanced by China Energy and its subsidiaries to the Company and/or its subsidiaries through Shenhua Finance Company	13,000	**893**
(6) Annual total fees, including agency fee, handling fee or other services expenses, charged for providing members of China Energy Group with consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other financial services	221	**12**

3. Daily connected transactions relating to the Merger of Groups

According to the "Notice regarding the Reorganization of China Guodian Corporation and Shenhua Group Corporation Limited" (Guo Zi Fa Gai Ge [2017] No. 146) dated 28 August 2017 received from SASAC, after Shenhua Group Corporation was renamed as China Energy Investment Corporation Limited, it will merge with China Guodian by way of merger by absorption of China Guodian ("the Merger of Groups"). As at the end of the reporting period, the Merger of Groups is still undergoing and has not yet completed.

Section VI Significant Events (Continued)

Pursuant to Shanghai Listing Rules and Implementation Guidelines for Connected Transactions of Listed Companies of Shanghai Stock Exchange, since 28 August 2017, Guodian Group was deemed as a connected person of the Company. From 1 January 2018 to 30 June 2018, daily transactions between the Group and Guodian Group, such as purchase and sale of coal, product and service transactions, constitute the daily related transactions under Shanghai Listing Rules. Relevant transactions are detailed as follows:

Unit: RMB million

	Provision of products and services by the Group to related persons and other inflows	**Purchase of products and services from related persons by the Group and other outflow**
Daily related transactions between the Group and Guodian Group	**Transaction amount during the reporting period** *RMB million*	**Transaction amount during the reporting period** *RMB million*
1. Mutual coal supply	10,975	653
2. Mutual supplies and services	10	61

The sum of aforementioned transaction amount of mutual coal supply and mutual supplies and services between the Group and Guodian Group, plus the total transaction amount of mutual coal supply and mutual supplies and services between the Group and China Energy Group does not exceed the 2018 annual caps set out in the Mutual Coal Supply Agreement and Mutual Supplies and Services Agreement.

Aforementioned continuing connected transactions were made within the normal business scope of the Company, and approval and disclosure procedures of independent directors and independent shareholders were performed strictly.

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

☐ Applicable ✓ Not applicable

(III) Material connected transactions regarding joint external investments

Upon the deliberation of the board meeting of the Company on 1 March 2018 and the approval at the first extraordinary shareholders meeting in 2018 of the Company on 27 April 2018, the Company and GD Power entered into the Agreement on the Establishment of a Joint Venture through Asset Reorganization to establish a joint venture company. The Company, with relevant equities and assets of thermal power companies held by it directly or indirectly (equities of 15 thermal power companies and 3 thermal power branches) and GD Power, with relevant equities and assets of thermal power companies held by it directly or indirectly (equities of 19 thermal power companies and 3 thermal power branches), will jointly establish a joint venture company ("the transaction"). Please refer to H Shares Announcement dated 27 April 2018 and A Shares Announcement dated 28 April 2018 of the Company for details.

As at the end of the reporting period, the transaction has not entered into force officially as approvals from all of the competent authorities have not been obtained.

(IV) Credits and debts between related parties

Unit: RMB million

		Funds provided to related parties			Funds offered by related parties to the Company		
Related parties	Relationship	Opening balance	Amount incurred	Closing balance	Opening balance	Amount incurred	Closing balance
China Energy and its subsidiaries	Controlling shareholders and its subsidiaries	0	0	0	1,374	0	1,374
Other related parties	Others	491	(2)	489	0	0	0
Total		491	(2)	489	1,374	0	1,374

Reasons for credits and debts between related parties	The above credits and debts mainly comprise entrusted loans provided by the Group to the associates through the bank as well as the short and long term borrowings obtained by the Group from China Energy Group and its subsidiaries. Internal decision-making procedures in this regard have been conducted in accordance with relevant requirements.
Impacts of credits and debts between related parties on the operating results and financial position of the Company	Above entrusted loans and borrowings were helpful to the normal implementation of construction and production of relevant projects of the Company and pose no significant impact on the business performance and financial position of the Company.

(V) Other material connected transactions

☐ Applicable ✓ Not applicable

Section VI Significant Events (Continued)

XI. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Trust, contracting and leasing

☐ Applicable ✓ Not applicable

During the reporting period, the Company did not enter into or have any management or administration contract relating to all or some significant businesses of the Company.

(II) Guarantees

Unit: RMB million

Guarantee provided by the Company to external parties (excluding guarantee granted to its subsidiaries)

Guarantor	Relationship between the guarantor and the listed company	Guaranteed	Amount guaranteed	Date of provision of guarantee (execution date of agreement	Beginning date of guarantee	Expiry date of guarantee	Type of guarantee	Whether guarantee has been completed	Whether guarantee is overdue	Amount of guarantee overdue	Whether Counter guarantee is provided	Whether guarantee is for the benefit of related parties	Relationship
Shenbao Energy Company	Controlling subsidiary	Hulunbeier Liangyi Railway Company Limited	99.81	2008.8.30	2008.8.30	2029.8.29	Joint and several liability guarantee	No	No	0	No	No	N/A
Shendong Coal Corporation	Wholly-owned subsidiary	Yulin Zhugaita Coal Cargo Transportation Co., Ltd.	57.89	2017.6.13	2017.6.13	2019.6.12	Joint and several liability guarantee	No	No	0	No	No	N/A
Zhuhai Coal Dock	Controlling subsidiary	Zhuhai Port Co., Ltd.	67.20	2018.6.13	2018.6.13	–	Joint and several liability guarantee	No	No	0	No	No	N/A

Total amount of guarantee provided during the reporting period (excluding guarantee provided to its subsidiaries)	81.70
Total balance of guarantee at the end of the reporting period (A) (excluding guarantee provided to its subsidiaries)	224.90
Guarantee provided by the Company to its subsidiaries	
Total amount of guarantee provided to its subsidiaries during the reporting period	(3,294.96)
Total balance of guarantee provided to its subsidiaries at the end of the reporting period (B)	6,872.72
Aggregated amount of guarantee (including guarantee provided to its subsidiaries)	
Total amount of guarantee (A+B)	7,097.62
Proportion of total amount of guarantee in net assets of the Company (%)	2.30
Including: Amount of guarantee provided to its shareholders, de facto controller and their related parties (C)	0
Amount of guarantee directly or indirectly provided to its parties with a gearing ratio in excess of 70% (D)	6,859.42
Portion of the total amount of guarantee in excess of 50% of net assets (E)	0
Aggregated amount of the above three amounts of guarantee (C+D+E)	6,859.42
Description of the potential joint and several repayment liability for unmatured guarantee	See below
Description of guarantee	See below

Note: (1) The balance of guarantee provided by the subsidiary to external parties of the balance of guarantee at the end of the reporting period equals to the amount of external guarantee of the subsidiary times the equity ratio of the subsidiary held by the Company;

(2) Proportion of total amount of guarantee in the net asset of the Company = total amount of guarantee/net assets attributable to equity holders of the Company as at the end of the period under accounting standards for business enterprises.

At the end of the reporting period, the total balance of the amount of guarantee of the Company amounted to RMB7,097.62 million, including:

(1) At the end of the reporting period, the guarantee provided by Shenbao Energy Company, a subsidiary of which the Company owns 56.61% of the shares, to external parties was as follows: prior to the acquisition of Shenbao Energy Company by the Company in 2011 and pursuant to the Guarantee Agreement on the Syndicated Renminbi Loan for the Joint Venture Railway Project Connecting Yimin and Yiershi Newly Constructed by Hulunbeier Liangyi Railway Company Limited, in 2008, Shenbao Energy Company, as one of the guarantors, provided joint and several liability guarantee to Hulunbeier Liangyi Railway Company Limited (hereinafter referred to as the "Liangyi Railway Company", of which Shenbao Energy Company owns 14.22% of the shares) for the syndicated loans. The major credit guaranteed was the debts due to the lender with a maximum balance of RMB207.47 million from 2008 to 2027, regardless of whether the debt is due when the above period expires. The above syndicated loans will fall due by tranches between 2011 and 2026. The Guarantee Agreement provides that the guarantee period of the debts borne by the guarantor shall be calculated from the due date of each tranche to two years after the due date of the last tranche, i.e. 2029.

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

    As at the end of the reporting period, Shenbao Energy Company, in proportion to its shareholding, repaid the principal on the loans on behalf of Liangyi Railway Company Limited amounting to a total of RMB25.3 million. Shenbao Energy Company already made full provision for impairment on its 14.22% equity interest in Liangyi Railway Company Limited and the repayment amount paid on its behalf.

    Together with other shareholders, Shenbao Energy Company will continue to call for improvement of business operation and management of Liangyi Railway Company. As at 30 June 2018, Liangyi Railway Company had a gearing ratio of 129.57%.

Section VI Significant Events (Continued)

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

As of 30 June 2018, the actual amount withdrawn by Yulin Zhugaita Coal Cargo Transportation Co., Ltd. amounted to RMB175.42 million, with a gearing ratio of 54%.

(3) As at the end of the reporting period, the external joint and several liability counter guarantee provided by Shenhua Zhuhai Coal Dock, a controlling subsidiary held as to 40% by the Company is as follows: Each of Guangdong Yudean Farnon Investment Co., Ltd. ("Yudean Farnon") and Zhuhai Port Co., Ltd. ("Zhuhai Port") held 30% equity interests in Shenhua Zhuhai Coal Dock, respectively.

Shenhua Zhuhai Coal Dock entered into a loan contract with Zhuhai branch of SPD Bank for a term of 10 years (from 30 September 2017 to 30 September 2027) with an amount of RMB336 million, pursuant to which Yudean Farnon and Zhuhai Port provided joint and several liabilities guarantee for such loan with an amount of RMB168 million, respectively. The guarantee periods are both two years from the expiry of term of debt performance by the debtors in the loan contract. Shenhua Zhuhai Coal Dock provided counter guarantee of joint and several liabilities to Yudean Farnon and Zhuhai Port with the caps of counter guarantee amount of 168 million, respectively. The above counter guarantee was approved at the eleventh meeting of the fourth session of the Board of the Company.

As of the date of the Reporting Period, Shenhua Zhuhai Coal Dock entered into a counter guarantee contract for joint and several liabilities guarantee ("Counter Guarantee Contract") with Zhuhai Port, with the caps of counter guarantee amount of 168 million. The counter guarantee period would be from the effective date of the Counter Guarantee Contract to the settlement of all payment by Shenhua Zhuhai Coal Dock. Shenhua Zhuhai Coal Dock has not yet entered into a counter guarantee contract for joint and several liabilities guarantee with Yudean Farnon.

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

As at 30 June 2018, the balance of guarantee for the loan was USD17.09 million (equivalent to approximately RMB113.08 million) and the gearing ratio of Baotou Coal Chemical Company was 25.8%.

(5) As of the end of the reporting period, the amount of guarantee between subsidiaries in consolidated reports of the Company, in proportion to its shareholding, amounted to approximately RMB6,759.6 million, which was mainly due to the fact that Shenhua Hong Kong Limited, the wholly-owned subsidiary of the Company, provided guarantees for the issuance of USD1.0 billion bonds by China Shenhua Overseas Capital Co., Ltd., its wholly-owned subsidiary, and Shenhua Funeng Power Co., Ltd. of which the Company indirectly held 51% shares provided guarantees to its two controlling subsidiaries.

(III) Other Material Contracts

1. Entrusted wealth management

(I) Overall entrusted wealth management

Unit: RMB million

Type of product	Source of fund	Amount incurred during this period note	Closing balance undue	Unrecovered amount overdue
Trust wealth management product	Own fund	50	0	0
Broker wealth management product	Own fund	100	100	0

Note: Amount incurred this year refers to the single-day maximum balance of such entrusted wealth management of the Group during the reporting period.

(2) Itemized entrusted wealth management

Unit: RMB million

No.	Trustor	Trustee	Type of entrusted wealth management products	Amount of entrusted wealth management	Initial date of entrusted wealth management	Expiry date of entrusted wealth management	Source of fund	Investment of fund	Determination of compensation	Annualized rate of return	Actual return this year	Principal recovered this year	Whether the legal process is take
1	Shenhua Finance Company	CITIC Trust	Trust wealth management product	50	2016/12/27	2018/2/12	Own fund	Fixed-income asset and cash asset and other financial instruments or products with a high security permitted for investment by laws and regulators	Principal and profit to be paid on redemption date	4.23%	2.39	50	Yes
2	Shenhua Finance Company	CITIC Securities	Broker wealth management product	100	2017/1/4	2019/1/4	Own fund	Fixed-income asset and cash asset, financial products, etc.	As per net value	N/A	N/A	0	Yes

As at the end of the reporting period, the Group did not identify the sign of any failure of honoring or receiving principal when due and did not accrue provision for impairment for above wealth management products.

Section VI Significant Events (Continued)

2. Entrusted loans

(I) Overall entrusted loans

Unit: RMB million

Type of product	Source of fund	Amount incurred during this period note	Closing balance undue	Unrecovered amount overdue
Entrusted loans	Own fund	0	420.0	37.4

Note: Amount incurred this year refers to the single-day maximum balance of such entrusted loans of the Group during the reporting period.

(2) Itemized entrusted loans

Unit: RMB million

Name of borrower	Relationship between the borrower and the Group	Trustee	Amount of entrusted loans	Initial date of loans	Expiry date of loans	Duration of loans	Source of fund	Investment of fund	Determination of compensation	Interest rate	Actual return of this reporting period	Principal recovered this reporting period	Whether the legal process is take
Sanxin Railway Company	Joint stock company	Bank of Beijing	37.4	2014/2/13	2015/2/13	1 year	Own fund	Operating fund	Principal and interest to be repaid one off on expiry date	6%	0	0	Yes
Yili Chemical	Joint stock company	Bank of Beijing	420.0	2017/12/29	2020/12/29	3 years	Own fund	Replacement of bank loans	Interest to be paid quarterly	4.75%	8.83	0	Yes

Note:

1. The entrusted loan provided by the Company to Inner Mongolia Sanxin Railway Co., Ltd. ("Sanxin Railway Company") was not repaid when it was due in February 2015, and both parties are under negotiation in respect of the subsequent relevant matters
2. In December 2017, Shendong Power Company, a wholly-owned subsidiary of the Company, and Inner Mongolia Yili Chemical Co., Ltd ("Yili Chemical") signed two entrusted loan contracts of RMB0.42 billion and RMB0.2 billion respectively; among which, the entrusted loan contract of RMB0.42 billion has been withdrawn on 29 December 2017 and the entrusted loan contract of RMB0.2 billion has not been withdrawn.

As of 30 June 2018, the Group did not grant entrusted loans with an amount exceeding 5% of the Group's latest audited net assets to any individual party. The Company did not utilize the proceeds raised to grant entrusted loans, and there was no entrusted loan that was involved in litigations. The Group did not accrue provision for impairment for above entrusted loans.

Under centralised capital management of the Group, the entrusted loans between the Company and subsidiaries were mainly for operating or development needs. The above-mentioned part of entrusted loans has been offset in the consolidated financial statements of the Group.

XII. NEEDY ALLEVIATION EFFORTS OF LISTED COMPANIES

1. Targeted poverty alleviation plan

The Group established and improved the system for organization and guarantee of poverty alleviation work conforming to the requirements under the targeted poverty alleviation plan and documents of the State. Adhering to the principle of targeted contribution based on its ability to benefit the public, the Group has made full use of unique local resources and adopted different measures based on the local circumstances with emphasis on solving practical problems. With continuous improvement of the production capability, life quality and medical condition in provinces targeted for support, provinces under focused poverty alleviation and deprived villages as the intention and the foothold, the Group meticulously organized poverty alleviation projects and constantly invested supporting funds with standardized management and enhanced supervision while carrying out various work including education support, hygiene improvement and medical support, enhancement in construction of rural infrastructure and production facilities and assistance in the development of special industries in deprived regions, as well as strengthening the promotion and application of new technologies, new industries, new business types and new business models in poverty alleviation.

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

2. Summary of the targeted poverty alleviation during the reporting period

In the first half of 2018, the Group contributed approximately RMB58.302 million to the targeted poverty alleviation which was mainly used for improvement of infrastructure in deprived rural areas of provinces under focused poverty alleviation, support of collective economy development in deprived rural areas, construction of schools and libraries in deprived regions, and aids to children with leukemia and congenital heart disease in impoverished families.

Each poverty alleviation work of China Shenhua achieved remarkable results, and was well recognized by the local government and all walks of life.

Section VI Significant Events (Continued)

3. Targeted poverty alleviation results

Index	Number and Circumstances
I. General	
In which: Capital *(RMB0'000)*	5,830.2
II. CONTRIBUTION BY CATEGORY	
1. Industry Development Support *(RMB0'000)*	2,109.3
In which: Category of industry support project	Agriculture and forestry support project
1.1 Number of industry support project *(unit)*	14
1.2 Investment in industry support project *(RMB0'000)*	2,109.3
2. Employment transfer for poverty alleviation *(RMB0'000)*	33.2
In which: Amount of subsidy for vocational skill training *(RMB0'000)*	33.2
3. Relocation for poverty alleviation *(RMB0'000)*	1,181.7
4. Education Support *(RMB0'000)*	1,542.7
In which: 4.1 Subsidy for poor students *(RMB0'000)*	67.5
4.2 Number of subsidized poor students	350
4.3 Improvement in contribution to educational resources in deprived regions *(RMB0'000)*	1,475.2
5. Health Support *(RMB0'000)*	25.1
In which: Helping poor people with treatment for serious illness *(RMB0'000)*	25.1
6. Minimum protection *(RMB0'000)*	58.1
7. Social Support *(RMB0'000)*	234.1
In which: Targeted poverty alleviation *(RMB0'000)*	234.1
8. Other projects *(RMB0'000)*	646.0
In which: 8.1 Number of projects *(unit)*	4
8.2 Investment amount *(RMB0'000)*	646.0
8.3 Other details of the projects	Undertake poverty alleviation through infrastructure by building roads, bridges and culverts, and ensuring safe drinking water

Note: (1) The donation from the China Shenhua accounts for 83% of the total donation received by China Energy Foundation since its establishment.

(2) Calculation basis of the capital expenditure for targeted poverty alleviation: capital expenditure of China Energy Foundation for targeted poverty alleviation × the proportion of donation made by the Group to China Energy Foundation + the capital expenditure of the Group directly used for targeted poverty alleviation.

(3) The above statistical table is based on the Notice of the State Council on the Publication of Poverty Alleviation Plan for the "13th Five-Year" Plan Period (Guo Fa [2016] No. 64).

4. Stage progress in fulfilling the social responsibility of targeted poverty alleviation

The Company spared no efforts to assist the underprivileged population in poverty alleviation through donations and other means. In the first half of 2018, certain funds for poverty alleviation have been used, while the remaining funds will be used according to the progress of poverty alleviation projects in the annual work plan.

As of the end of the Reporting Period, Gangcha County, Qinghai, out of the six counties working on targeted poverty alleviation, planned to cast off poverty in 2018. A total of 25,919 children of 0-18 years old with leukemia and congenital heart disease from disadvantaged families nationwide were assisted by the Company. Free screenings for congenital heart disease were conducted on 44,790 new-borns in seven pilot counties of Hebei Province and Shaanxi Province. A total of 17 schools were built in seven provinces (autonomous regions), such as Jiangxi, Yunnan, Guangxi, Qinghai, Inner Mongolia, Xinjiang and Ningxia. A total of 24.38 million books were donated to, and 12,855 libraries were established in primary and secondary schools in 15 provinces (autonomous regions and municipality) nationwide, benefiting 9.84 million students.

5. Subsequent targeted poverty alleviation plan

Following closely to the basic policy and strategy of the state on targeted poverty alleviation, the Group will continue to promote poverty alleviation work according to annual plan and proactively fulfill its social responsibility. The Group will also improve the management methods for poverty alleviation and external donation, coordinate among capital, personnel and pairing assistance works arranged by governments at all levels, focus on the deprived regions that are in desperate need of poverty alleviation, provinces targeted for support and provinces under focused poverty alleviation, as well as manage and implement the branded public welfare projects of "Shenhua Loving Heart" and assistance to the children with leukemia and congenital heart disease. The Group will attach importance to the re-election of the cadres designated to take a post in provinces targeted for support in 2018. Training sessions will be held from time to time for cadres and industry leaders in the deprived regions to keep abreast of the current policies and broaden their minds. The standardized management of poverty alleviation funds, and supervision and audit of special funds will be conducted for the completion of annual poverty alleviation tasks with quality and quantity.

XIII. CONVERTIBLE BONDS OF THE COMPANY

☐ Applicable ✓ Not applicable

XIV. ENVIRONMENTAL INFORMATION

(I) Environmental issues of listed companies and their significant subsidiaries classified as the key pollutant discharging units as published by the competent environmental protection authorities of the PRC

1. Information on pollutant discharge

During the reporting period, total emission of major pollutants of national enterprises for key supervision and control of pollution sources and enterprises for key supervision and control of pollution sources of the Company is as follows: sulfur dioxide of 10.2 thousand tonnes, nitrogen oxides of 19.4 thousand tonnes, soot of 2.2 thousand tonnes and chemical oxygen demand (COD) of 407 tonnes. In particular, total emission of major air pollutants produced by the enterprises categorized as national major pollution source under supervision is as follows: sulfur dioxide of 9.8 thousand tonnes, nitrogen oxides of 19.0 thousand tonnes, soot of 1.6 thousand tonnes and chemical oxygen demand (COD) of 179 tonnes.

As at 30 June 2018, 48 subsidiaries of the Group were categorized as national major pollution source under supervision (among which 43 were waste gas exhausting enterprises, 6 were wastewater discharging enterprises (inclusive of 1 waste gas exhausting enterprise concurrently and 1 was hazardous solid waste discharging enterprises (also was a waste gas exhausting enterprise and a wastewater discharging enterprise)), mainly are coal-fired power plants, coal chemical plants and coal preparation plants, etc. which are located in places including Inner Mongolia, Shaanxi, Fujian, Hebei, Anhui, Jiangsu and Zhejiang.

Section VI Significant Events (Continued)

The main pollutants emitted by waste gas exhausting enterprises are dioxide, nitrogen oxides and soot, which are emitted to the atmosphere through the chimneys. Waste gas exhausting enterprises are mainly distributed in public thermal power plants, coal-to-chemical captive power plants, heating boilers for mines and coking plants. Emission standards implemented include Emission Standards for Air Pollutants Produced by Thermal Plants (GB13223–2011), Emission Standards for Air Pollutants Produced by Boilers (GB13271–2014) and Emission Standards for Pollutants Produced by Coking Chemical Industry (GB16171–2012).

The main pollutants discharged by wastewater discharging enterprises are chemical oxygen demand (COD), which are discharged to the surface water through the sewage outfall of the enterprises. Wastewater enterprises are mainly distributed in coal mining and coal-to-chemical enterprises and wastewater treatment plants. The emission standard implemented was the Comprehensive Emission Standards for Sewage (GB8978–1996).

In the first half of 2018, top three major national enterprises for supervision and control of pollution sources under the Group with the largest total emission of sulphur dioxide and nitrogen oxides are as follows:

Subsidiary	**Major pollutant**	**Total actual emission measured in the first half of 2018** *tonnes*	**Approved total emission by the pollutant discharge permit** *tonnes/year*
Taishan Power	SO_2	628	4,780
	NO_x	1,341	9,560
	Soot	65	N/A
Zheneng Power	SO_2	661	2,965
	NO_x	1,292	4,235
	Soot	51	1,660
Jinjie Energy (power plant)	SO_2	606	1,535
	NO_x	1,112	4,911
	Soot	129	1,314

In the first half of 2018, top three major national enterprises for supervision and control of pollution sources of the Group with the largest emission of chemical oxygen demand (COD) were: Jinjie Energy (coal mine)(64 tonnes), Baotou Coal Chemical Company (64 tonnes) and wastewater treatment plants of Zhunge'er Energy Company (22 tonnes).

In the first half of 2018, solid waste discharge of the major national enterprise for control of pollution sources of the Group is as follows: 216 tonnes from Baotou Coal Chemical Company. The above hazardous waste are all disposed of and transferred in a compliance manner without discharging;

Investors should be aware that the above data are from self-monitoring of the Company, which are not confirmed by the local environmental protection regulatory authority and may be different from the final data determined by the local environmental protection regulatory authority.

With regard to the provisions under the existing laws, the management believes that there is no contingent risk in relation to environmental protection that may bring material and adverse effect to the financial position and operating results of the Group. Contingent liabilities which may arise in the future cannot be accurately predicted.

2. **Construction and operation of pollution prevention and control facilities**

During the Reporting Period, all subsidiaries of the Group were well-equipped with pollution prevention and control facilities that were under stable operation. They fully implemented the Water Pollution Control Action Plan for 2015–2020, constructed underground reservoir in goaf areas, as well as constructed wastewater treatment plants and advanced water treatment plants to achieve comprehensive treatment and utilization of wastewater. Such comprehensive measures as full closure of the coal storage yard, installation of wind and dust prevention walls, and spray facilities, as well as solidification and dust sealing for outbound coal by railway transportation, were implemented well as dust reduction in the underground mines, so as to strengthen dust treatment. The environmental protection facilities for dust removal, desulfurization and denitrification of coal-fired generating units and thermoelectric boilers were under stable operation, with the emission of soot reaching the standard. In particular, 89.0% coal-fired generating units achieved ultra-low emission (calculated by installed capacity). The hydrogen sulfide gas produced by the chemical industry was treated with the Level 2 Claus + tail-gas hydrogenation technology, after which the emission of tail gas was able to reach the standard of discharge. The general solid waste by-products, such as, coal gangue, furnace ash and desulphurization gypsum, were comprehensively utilized in the forms of power generation and brick making, and all hazardous wastes were disposed of and transferred in compliance with the relevant requirements.

3. **Environmental effect appraisal of construction project and other administrative approvals on environmental protection**

In terms of construction project, the Group carried out simultaneously three management measures, being environmental effect appraisal and energy conservation appraisal, soil conservation inspection and acceptance, as well as environmental protection inspection and acceptance. The environmental impact appraisal, as well as environmental protection inspection and acceptance construction completion, water environmental protection inspection and acceptance and other relevant tasks have been conducted, respectively, on all construction projects in accordance with the law.

4. **Emergency plan for unexpected environmental incidents**

During the Reporting Period, all subsidiaries of the Group have formulated their emergency plans for unexpected environmental incidents and conducted regular drills.

5. **Environment self-monitoring plan**

The Group standardized the management of the online environmental protection monitoring system, and formulated the Administration Measures for the Online Environmental Protection Monitoring System (Trial) (《環保在線監測系統管理辦法(試行)》) in accordance with the relevant national standards and administrative regulations for online monitoring of pollution source. All subsidiaries of the Company have completed the preparation of their self-monitoring plans. All the data in relation to wastewater and exhaust gas from automatic monitoring and entrusted monitoring were uploaded to the monitoring platform of the local environmental protection department according to the monitoring frequency and time limit for publication as determined in the monitoring plan. During the Reporting Period, all facilities were under normal operation.

6. **Other environmental information that should be disclosed**

☐ Applicable ✓ Not applicable

(II) Environmental issues of companies other than those classified as the key pollutant discharging units

In line with the principles of prevention from the source, control in the process and treatment at the end, the Group conducted clean production, as well as pollution prevention and control to minimize the impact of production on environment. It also strengthened comprehensive treatment and reuse of wastewater to improve its comprehensive utilization efficiency. With ultra-low emission renovation of coal-fired generating units taking the lead, the Group focused on dust prevention and control, as well as technical transformation of boilers to reduce air pollutant emissions, completing successfully the stage task of air pollution prevention and control in Beijing, Tianjin, Hebei and the surrounding regions. By further exploiting the values of such solid wastes as coal gangue, coal ash and boiler slag, the Group increased their comprehensive utilization, and make sure that all solid wastes are safely disposed. The Group also conducted such works as soil conservation, windbreaks and sand fixation, land subsidence treatment, land reclamation and afforestation, as well as ecological construction, so as preserve and improve the local ecological environment.

(III) Explanation of reasons for non-disclosure of environmental information by companies other than those classified as the key pollutant discharging units

☐ Applicable ✓ Not applicable

(IV) Explanation of the follow-up progress of or changes in the disclosure of environmental information during the Reporting Period

☐ Applicable ✓ Not applicable

XV. OTHER MATERIAL MATTERS

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

The Group adopted the following newly-published or amended accounting standards in the 2018 Interim Financial Report: IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts, IFRIC 22 – Foreign Currency Transactions and Advance Consideration, Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transaction, Application of IFRS 9 – Financial Instruments Accounting Standards in Amendments to IFRS 4 – Insurance Contracts, Amendments to IAS 40 – Transfer of Investment Properties and Amendments to IAS 28 – As Annual Improvements to IFRS: a Part of 2014–2016 Cycles.

The above changes in accounting standards will not cause material impact on the financial conditions and operating results of the Company.

For specific changes and impact, please refer to note 3. Major Accounting Policies to the financial statements of the report.

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

☐ Applicable ✓ Not applicable

(III) Others

☐ Applicable ✓ Not applicable

Section VII Changes in Share Capital and Shareholders

I. CHANGES IN EQUITY

(I) Changes in shares

1. Changes in shares

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

	As at June 30 2018 Number	Percentage %
I. Shares with selling restrictions	0	0.00
II. Shares without selling restrictions	19,889,620,455	100.00
1. RMB ordinary shares	16,491,037,955	82.91
2. Overseas listed foreign shares	3,398,582,500	17.09
III. Total number of shares	19,889,620,455	100.00

During the six months ended 30 June 2018, the Group did not purchase, sell or redeem any of the Company's securities as defined under the Hong Kong Listing Rules.

During the reporting period and as of the disclosure date of this report, the Company has satisfied the minimum public float provisions under Rule 8.08 of the Hong Kong Listing Rules.

2. Details of changes in shares

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

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

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

Section VII Changes in Share Capital and Shareholders (Continued)

(II) Changes in shares with selling restrictions

☐ Applicable ✓ Not applicable

II. SHAREHOLDERS

(I) Total number of shareholders

Total number of shareholders of ordinary shares as at the end of the reporting period (number of accounts)	197,022
Of which: Holders of A shares (including China Energy)	194,861
Registered holders of H shares	2,161

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

Unit: Number of shares

Shareholdings of top ten shareholders							
Full name of shareholders	Increase/ decrease during the reporting period	Number of shares held at the end of the reporting period	Percentage *(%)*	Number of shares held with selling restrictions	Shares subject to pledge or lock-up Status	Shares subject to pledge or lock-up Number	Nature of shareholders
China Energy Investment Co., Ltd.	0	14,530,574,452	73.06	0	Nil	N/A	State-owned
HKSCC NOMINEES LIMITED	+357,999	3,391,137,798	17.05	0	Unknown	N/A	Overseas corporation
China Securities Finance Corporation Limited	-12,828,223	663,587,420	3.34	0	Nil	N/A	Others
Central Huijin Asset Management Ltd.	0	110,027,300	0.55	0	Nil	N/A	State-owned
Hong Kong Securities Clearing Co., Ltd.	+26,160,644	72,992,610	0.37	0	Nil	N/A	Overseas corporation
Bank of Communications – E Fund 50 Index Securities Investment Fund	+5,270,600	18,294,240	0.09	0	Nil	N/A	Others
Guotai Junan Securities	+15,210,252	15,451,236	0.08	0	Nil	N/A	Others
ICBC – Shanghai Securities Composite Index 50 Exchange Traded Fund	-204,256	14,944,808	0.08	0	Nil	N/A	Others
Monetary Authority of Macao – Own Fund	+8,225,924	10,144,552	0.05	0	Nil	N/A	Overseas corporation
Social Security Fund 113 Combination	+9,257,986	9,257,986	0.05	0	Nil	N/A	State-owned

Shareholdings of top ten shareholders without selling restrictions

Name of shareholders	Number of shares without selling restrictions	Type and number of shares: Type	Type and number of shares: Number
China Energy Investment Co., Ltd.	14,530,574,452	RMB ordinary shares	14,530,574,452
HKSCC NOMINEES LIMITED	3,391,137,798	Overseas-listed foreign shares	3,391,137,798
China Securities Finance Corporation Limited	663,587,420	RMB ordinary shares	663,587,420
Central Huijin Asset Management Ltd.	110,027,300	RMB ordinary shares	110,027,300
Hong Kong Securities Clearing Co., Ltd.	72,992,610	RMB ordinary shares	72,992,610
Bank of Communications – E Fund 50 Index Securities Investment Fund	18,294,240	RMB ordinary shares	18,294,240
Guotai Junan Securities	15,451,236	RMB ordinary shares	15,451,236
ICBC – Shanghai Securities Composite Index 50 Exchange Traded Fund	14,944,808	RMB ordinary shares	14,944,808
Monetary Authority of Macao – Own Fund	10,144,552	RMB ordinary shares	10,144,552
Social Security Fund 113 Combination	9,257,986	RMB ordinary shares	9,257,986

Details regarding the connected relationships among the above shareholders or whether they are parties acting in concert	HKSCC Nominees Limited and Hong Kong Securities Clearing Company Limited are both wholly-owned subsidiaries of Hong Kong Exchanges and Clearing Limited. Save as disclosed above, the Company is not aware of any connected relationships between the top ten shareholders not subject to selling restrictions and the top ten shareholders and whether they are parties acting in concert as defined in the Measures for Administration of Acquisition of Listed Companies.
Details regarding the holders of preference shares with voting rights restored and the number of shares held	N/A

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

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

☐ Applicable ✓ Not applicable

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

☐ Applicable ✓ Not applicable

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

As at 30 June 2018, the persons as disclosed in the table below had interests and/or short positions in the shares or underlying shares of the Company which are required to be recorded in the register of equity interests and/or short positions to be kept under section 336 of Part XV of the Securities and Futures Ordinance (the "SFO", Chapter 571 of the laws of Hong Kong):

No.	Name of shareholder	Capacity	H shares/ A shares	Nature of interest	Number of H shares/A shares held	Percentage of H shares/ A shares over total issued H shares/ A shares respectively %	Percentage of total share capital of the Company % %
1	China Energy Investment Co., Ltd.	Beneficial owner	A shares	N/A	14,530,574,452	88.11	73.06
2	JPMorgan Chase & Co.	Beneficial owner; Investment Manager; Trustee (except for bare trustee); custodian -corporation/approved lending agent	H shares	Long position Short position Shares available for lending	204,176,917 13,694,385 80,843,534	6.00 0.40 2.37	1.03 0.07 0.41
3	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H shares	Long position Short position	197,145,520 72,000	5.80 0.00	0.99 0.00

Notes: (1) In 204,176,917 H shares in long position held by JPMorgan Chase & Co., 64,500,530 H shares are held in its capacity as the beneficial owner, 58,814,261 H shares are held in its capacity as the investment manager, 18,592 H shares are held in its capacity as the trustee (except for bare trustee), 80,843,534 H shares are held in its capacity as the custodian – corporation/approved lending agent. In addition, the following H shares in both long position and short position involve derivatives, including:

a. 17,892,596 H shares in long position and 167,916 H shares in short position: derivatives listed – physically settled;

b. 1,419,500 H shares in short position: derivatives listed – cash settled;

c. 4,252,860 H shares in long position and 11,718,469 H shares in short position: unlisted derivatives – physically settled;

d. 90,500 H shares in long position and 388,500 H shares in short position: unlisted derivatives – cash settled.

(2) In H shares in long position and short position held by BlackRock, Inc., 2,159,665 H shares in long position involve derivatives, and their type is unlisted derivatives – cash settled.

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

As at 30 June 2018, save as disclosed above, there was no other person who held interests and/or short positions in the shares or underlying shares of the Company which are required to be recorded in the register to be kept under section 336 of Part XV of the SFO, or was a substantial shareholder of the Company.

III. CHANGES IN CONTROLLING SHAREHOLDER OR DE FACTO CONTROLLER

☐ Applicable ✓ Not applicable

Section VIII Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDING

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

As at 30 June 2018, Mr. Lv Zhiren, a Vice President of the Company, held 1,500 A Shares of the Company. Mr. Lv Zhiren did not trade the shares of the Company during the reporting period. During the reporting period, there were no changes in shareholding in the Company held by the directors, supervisors and senior management of the Company that were required to be disclosed pursuant to the "Rules on the Management of Shares Held by Directors, Supervisors and Senior Management of Listed Companies and the Changes Thereof" promulgated by the China Securities Regulatory Commission ("CSRC").

All the directors and supervisors of the Company have confirmed that they have fully complied with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules, which was adopted by the Company, for the six months ended 30 June 2018.

As of 30 June 2018, none of the directors, supervisors and chief executive of the Company held any share of the Company nor had any interest or short position in the shares or underlying shares of the Company or any of its associated corporations within the meaning of Part XV of the SFO (Chapter 571 of the laws of Hong Kong), as recorded in the register required to be kept under section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange under the Model Code for Securities Transactions by Directors of Listed Issuers.

As at 30 June 2018, the Company did not grant any equity securities or warrants to directors, supervisors and chief executive or their respective spouses or children under the age of 18.

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

☐ Applicable ✓ Not applicable

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

Name	Position	Change	Reason
Ling Wen	Chairman	Election	Elected at the eighth meeting of the fourth session of the Board on 2 January 2018
Gao Song	Executive Director	Election	Elected at the first extraordinary shareholders meeting in 2018 on 27 April 2018
Mi Shuhua	Executive Director	Election	Elected at the first extraordinary shareholders meeting in 2018 on 27 April 2018
Peng Suping	Independent Non-executive Director	Election	Elected at the first extraordinary shareholders meeting in 2018 on 27 April 2018
Huang Ming	Independent Non-executive Director	Election	Elected at the first extraordinary shareholders meeting in 2018 on 27 April 2018
Ling Wen	Vice Chairman, President	Resignation	Resigned from the position on 2 January 2018 due to adjustments to work
Han Jianguo	Executive Director	Resignation	Resigned from the position on 15 May 2018 due to reaching the retirement age
Zhang Zifei	Vice President	Resignation	Resigned from the position on 31 May 2018 due to reaching the retirement age

Note: Mr. Zhai Richeng has resigned as the Chairman of the Supervisory Board of the Company on 22 May 2018 due to work adjustment. According to the Articles of Association of the Company, such resignation will be effective when a new supervisor is elected at a shareholders' meeting.

III. CORPORATE GOVERNANCE

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

The board of directors is responsible for the corporate governance of the Company. The Company has established its own system of corporate governance pursuant to the corporate governance policies as set out in Appendix 14 of the Hong Kong Listing Rules. The convening, voting, disclosure procedures and rules of procedure of meetings of the board of directors of the Company, and procedures for nomination and election of directors, are in compliance with regulatory requirements. The board of directors is the standing decision-making entity of the Company. The Articles of Association sets out in detail the separate responsibilities of the chairman and the president. During the six months ended 30 June 2018, the Company has been in full compliance with the principles and code provisions and most of the recommended best practices as specified therein. For the terms of reference of the board of directors and its special committees in performing duties under the Corporate Governance Code, please refer to the Articles of Association, Rules of Procedure of Meetings of the Board of Directors and rules of procedure of its special committees.

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

The Company has appointed independent non-executive directors and established an Audit Committee in accordance with the Hong Kong Listing Rules. As at the end of the reporting period, the Audit Committee comprised Ms. Zhong Yingjie, Christina (chairwoman of the Audit Committee, with professional qualifications and experience in accounting and other fields of financial management), Dr. Tam Wai Chu, Maria and Dr. Jiang Bo. The principal duties of the Audit Committee include: overseeing and evaluating the work of the external auditor; providing guidance on the internal audit; reviewing the financial reports of the Company and issuing opinions; evaluating the effectiveness of the risk management and internal control; coordinating the communication of the management, internal audit department and the relevant departments with the external auditor; other matters authorized by the board of directors of the Company or required under the relevant laws and regulations.

During the reporting period, the Audit Committee performed its duties in strict compliance with the Rules of Procedures of the Audit Committee of the Board of Directors and the Work Procedures of the Audit Committee of the Board of Directors of China Shenhua. On 17 August 2018, the Audit Committee reviewed the Group's interim financial statements for the six months ended 30 June 2018 and approved the submission of the same to the board of directors for consideration and approval.

The Company has an independent and complete business structure as well as a market-oriented self-operation capability. The Company is independent in terms of business, personnel, assets, organisation and finance. Supplementary Agreement of Non-Compete Agreement on the Execution of Subsidiary Conditions Signed with the China Energy was approved at the first extraordinary shareholders meeting of the Company in 2018. The Company will be responsible for the integration of the new coal business of the China Energy Group in future. As at 30 June 2018, the Company continued to appoint 3 deputy general managers of the China Energy (Li Dong, Wang Jinli, Wang Shumin) as the Senior Vice President and Vice President of the Company. The Company will further regulate related party transactions, reduce possible competition and strive to maximize the interest of the shareholders.

IV. EMPLOYEES OF THE COMPANY

Total number of existing employees of the Group *(number of person)*	87,312
Number of resigned and retired employees in respect of which the Company and subsidiaries were responsible for bearing costs *(number of person)*	14,753

By Function

Function	Number of people *person*
Operation and maintenance	54,309
Management and administration	12,825
Finance and accounting	1,832
R&D	2,523
Technical support	11,356
Sales and marketing	920
Others	3,547
Total	87,312

By Educational Level

Educational level	Number of people *person*
Postgraduate or above	2,927
University graduate	30,929
College graduate	23,211
Specialised secondary school graduate	12,986
Technical school graduate, high school graduate or below	17,259
Total	87,312

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

Section IX Investor Relations

In the first half of the year, China Shenhua adhered to actively implement various policies, proactively optimise investor relations work to promote investor protection work and good results have been obtained.

I. PROTECT INVESTORS' LEGITIMATE RIGHTS AND INTERESTS WITH COMPLIANCE IN LAWS AND REGULATIONS

In the first half of 2018, in accordance with the requirements of regulators and listing rules, the Company continued to promote investor protection work, in particular medium and small investors. First, the Company actively implemented the appeals of investors. The Board of Directors of the Company, according to the recommendations of medium and small investor service center of the China Securities Index Co., Ltd., revised the Articles of Associations of the Company, and added separate vote counting and cumulative voting of medium and small investors, not restricting the shareholding percentage of solicitation voting right, dividend policy subject to shareholders' opinions and other contents, to further improve the investor protection work level of the Company. Second, the Company expanded channels and enhanced investor communications. The Company actively participated in the Listed Companies Reception Day activity in Beijing and increased communications with investors. In investigation and survey on the reception site, the Company specially designated persons to answer investor hotline, to keep the hotline available.

II. PROVIDING VALID INFORMATION AND RESPONDING TO MARKET CONCERNS

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

III. SEIZING FAVORABLE OPPORTUNITIES TO ENHANCE INVESTOR RELATIONS

In the first half of 2018, capital market maintained a high attention to coal industry and controlling shareholders of the Company continued to promote reorganization and consolidation . By utilizing this favourable timing, the Company actively strengthened investor relation work. The Company also engaged in honest and sufficient communication with investors and analysts in an on-going fashion through results announcement conferences, trading roadshows, online forums and other means. We have communicated with over 300 analysts and fund manager. In particular: communications have been made with over 120 persons at roadshows, over 100 persons at investment forums and over 180 persons during company visits and by conference calls and the Company has also held two online forums.

The Company's investor relation work received favorable reviews from the market. In the selection organized by the China Association for Public Companies, China Securities Investor Protection Fund Corporation Limited, Shanghai Stock Exchange and other units, China Shenhua was awarded with the title of "The Most Respected Listed Company by Investors 2017".

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 90 to 137, which comprise the condensed consolidated statement of financial position as at 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June 2018 RMB million (Unaudited)	2017 RMB million (Unaudited)
Revenue			
Goods and services	4	**127,380**	120,518
Cost of sales	6	**(82,642)**	(77,615)
Gross profit		**44,738**	42,903
Selling expenses		**(312)**	(285)
General and administrative expenses		**(4,460)**	(3,934)
Other gains and losses	10	**(4)**	558
Other income	7	**247**	525
Impairment losses, net of reversal	10	**(9)**	–
Other expenses		**(187)**	(143)
Interest income		**476**	479
Finance costs	8	**(2,271)**	(2,331)
Share of results of associates		**274**	223
Profit before income tax		**38,492**	37,995
Income tax expense	9	**(8,605)**	(7,156)
Profit for the period	10	**29,887**	30,839
Other comprehensive income (expense) for the period			
Items that will not be reclassified to profit or loss, net of income tax:			
Remeasurement of defined benefit obligations		**(24)**	11
Fair value changes on investments in equity instruments at fair value through other comprehensive income		**65**	–
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Exchange differences		**(7)**	8
Share of other comprehensive income of associates		**9**	1
Fair value changes on available-for-sale investments		**–**	9
Other comprehensive income for the period, net of income tax		**43**	29
Total comprehensive income for the period		**29,930**	30,868
Profit for the period attributable to:			
Equity holders of the Company		**24,520**	26,298
Non-controlling interests		**5,367**	4,541
		29,887	30,839
Total comprehensive income for the period attributable to:			
Equity holders of the Company		**24,551**	26,339
Non-controlling interests		**5,379**	4,529
		29,930	30,868
Earnings per share *(RMB)*			
– Basic	12	**1.233**	1.322

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	NOTES	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Non-current assets			
Property, plant and equipment	13	**322,625**	329,970
Construction in progress	13	**40,992**	39,054
Exploration and evaluation assets		**955**	998
Intangible assets		**3,541**	3,447
Interests in associates		**9,803**	9,513
Available-for-sale investments		**–**	854
Equity instruments at fair value through other comprehensive income		**812**	–
Other non-current assets	14	**32,502**	33,466
Lease prepayments	15	**17,639**	17,858
Deferred tax assets		**3,700**	3,798
Total non-current assets		**432,569**	438,958
Current assets			
Inventories	16	**14,925**	11,647
Accounts and bills receivables	17	**19,837**	19,455
Prepaid expenses and other current assets	18	**24,537**	20,452
Restricted bank deposits		**8,473**	7,348
Time deposits with original maturity over three months		**2,472**	1,870
Cash and cash equivalents	19	**93,761**	71,872
Total current assets		**164,005**	132,644
Current liabilities			
Borrowings	20	**18,077**	15,785
Accounts and bills payables	21	**30,175**	33,914
Accrued expenses and other payables	22	**62,149**	51,995
Current portion of medium-term notes		**4,999**	4,995
Current portion of bonds		**–**	3,267
Current portion of long-term liabilities	23	**307**	345
Income tax payable		**3,117**	5,604
Contract liabilities		**6,041**	–
Total current liabilities		**124,865**	115,905
Net current assets		**39,140**	16,739
Total assets less current liabilities		**471,709**	455,697

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2018

	NOTES	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Non-current liabilities			
Borrowings	20	68,527	64,321
Bonds		6,572	6,485
Long-term liabilities	23	2,361	2,292
Accrued reclamation obligations	24	2,814	2,745
Deferred tax liabilities		784	749
Total non-current liabilities		81,058	76,592
Net assets		390,651	379,105
Equity			
Share capital	25	19,890	19,890
Reserves		292,124	285,651
Equity attributable to equity holders of the Company		312,014	305,541
Non-controlling interests		78,637	73,564
Total equity		390,651	379,105

These condensed consolidated financial statements on page 90 to 137 were approved and authorised for issue by the board of directors on 24 August 2018, and are signed on its behalf by:

Ling Wen
Chairman

Li Dong
Executive Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Equity attributable to equity holders of the Company									
	Share capital RMB million (Note 25)	Share premium RMB million (Note (i))	Capital reserve RMB million (Note (ii))	Exchange reserve RMB million	Statutory reserves RMB million (Note (iii))	Other reserves RMB million (Note (iv))	Retained earnings RMB million (Note (v))	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 31 December 2017 (audited)	19,890	85,001	3,612	(65)	24,493	(14,214)	186,824	305,541	73,564	379,105
Adjustment at the date of initial application of IFRS 9 *(Note 3.2.2)*	–	–	–	–	–	(692)	692	–	–	–
At 1 January 2018 (restated)	19,890	85,001	3,612	(65)	24,493	(14,906)	187,516	305,541	73,564	379,105
Profit for the period	–	–	–	–	–	–	24,520	24,520	5,367	29,887
Other comprehensive (expense) income for the period	–	–	–	(19)	–	50	–	31	12	43
Total comprehensive (expense) income for the period	–	–	–	(19)	–	50	24,520	24,551	5,379	29,930
Dividend declared *(Note 11)*	–	–	–	–	–	–	(18,100)	(18,100)	–	(18,100)
Appropriation of maintenance and production funds *(Note (iii))*	–	–	–	–	2,692	–	(2,692)	–	–	–
Utilisation of maintenance and production funds *(Note (iii))*	–	–	–	–	(952)	–	952	–	–	–
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	80	80
Distributions to non-controlling shareholders	–	–	–	–	–	–	–	–	(386)	(386)
Others	–	–	–	–	–	22	–	22	–	22
At 30 June 2018 (unaudited)	19,890	85,001	3,612	(84)	26,233	(14,834)	192,196	312,014	78,637	390,651

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018

	Equity attributable to equity holders of the Company									
	Share capital *RMB million* *(Note 26)*	Share premium *RMB million* *(Note (i))*	Capital reserve *RMB million* *(Note (ii))*	Exchange reserve *RMB million*	Statutory reserves *RMB million* *(Note (iii))*	Other reserves *RMB million* *(Note (iv))*	Retained earnings *RMB million* *(Note (v))*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2017 (audited)	19,890	85,001	3,612	105	20,827	(14,227)	201,767	316,975	67,994	384,969
Profit for the period	–	–	–	–	–	–	26,298	26,298	4,541	30,839
Other comprehensive income (expense) for the period	–	–	–	20	–	21	–	41	(12)	29
Total comprehensive income for the period	–	–	–	20	–	21	26,298	26,339	4,529	30,868
Dividend declared *(Note 11)*	–	–	–	–	–	–	(59,072)	(59,072)	–	(59,072)
Appropriation of maintenance and production funds *(Note (iii))*	–	–	–	–	2,714	–	(2,714)	–	–	–
Utilisation of maintenance and production funds *(Note (iii))*	–	–	–	–	(387)	–	387	–	–	–
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	1,446	1,446
Distributions to non-controlling shareholders	–	–	–	–	–	–	–	–	(433)	(433)
At 30 June 2017 (unaudited)	19,890	85,001	3,612	125	23,154	(14,206)	166,666	284,242	73,536	357,778

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2018

Notes:

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

(ii) The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets, net of other reserves, transferred from China Energy Investment Corporation Limited (the "China Energy Group"), formerly known as Shenhua Group Corporation Limited ("Shenhua Group") which changed to its present name on 28 November 2017, in connection with the Restructuring (as defined in Note 1).

(iii) Statutory reserves

Statutory surplus reserve

According to the PRC Company Law and the Company's Articles of Association, the Company (as defined in Note 1) is required to transfer 10% of its net profit as determined in accordance with the China Accounting Standards for Business Enterprises ("China Accounting Standards") to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

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

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

Specific reserve for maintenance and production funds

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

General reserve

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

Discretionary surplus reserve

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

The directors of the Company (the "Directors") have not proposed any appropriation to the discretionary surplus reserve for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

(iv) Other reserves

Other reserves mainly represent the consideration paid for acquisition of subsidiaries under common control, share of other comprehensive (expense) income of associates, and fair value changes of financial assets measured at fair value through other comprehensive income ("FVTOCI").

(v) Retained earnings

Included in the retained earnings of the Group were its share of the surplus reserve of its domestic subsidiaries amounting to RMB22,573 million (31 December 2017: RMB22,573 million) as at 30 June 2018.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before income tax	**38,492**	37,995
Adjustments for:		
Depreciation and amortisation *(Note 10)*	**12,268**	12,239
Other gains and losses *(Note 10)*	**4**	(558)
Impairment losses *(Note 10)*	**9**	–
Interest income	**(476)**	(479)
Share of results of associates	**(274)**	(223)
Interest expense	**2,135**	2,416
Exchange loss (gain), net *(Note 8)*	**136**	(85)
Operating cash flows before movements in working capital	**52,294**	51,305
(Increase) decrease in inventories	**(3,278)**	415
Increase in accounts and bills receivable	**(390)**	(2,775)
(Increase) decrease in prepaid expenses and other receivables	**(1,840)**	306
Decrease in accounts and bills payable	**(4,000)**	(1,729)
Increase in accrued expenses and other payables	**165**	7,977
Cash generated from operations	**42,951**	55,499
Income tax paid	**(11,014)**	(7,862)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**31,937**	47,637
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment, intangible assets, exploration and evaluation assets, additions to the construction in progress and other non-current assets	**(7,480)**	(10,238)
Increase in lease prepayments	**(40)**	(389)
Proceeds from disposal of property, plant and equipment, intangible assets and other non-current assets	**309**	1,888
Proceeds from disposal of available-for-sale investments	**–**	35,487
Disposal of equity instruments at fair value through other comprehensive income	**2**	–
Proceeds from disposal of derivative financial instruments	**106**	4
Investments in associates	**(39)**	(130)
Dividend received from associates	**51**	8
Interest received	**385**	310
Investments in wealth management products	**–**	(26,100)
Increase in restricted bank deposits	**(1,125)**	(1,344)
Placing of time deposits with original maturity over three months	**(971)**	(677)
Maturity of time deposits with original maturity over three months	**369**	3,130
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(8,433)**	1,949

Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
Interest paid	**(2,380)**	(2,103)
Proceeds from borrowings	**13,438**	9,487
Repayments of borrowings	**(6,759)**	(8,886)
Repayments of bonds	**(3,208)**	–
Contributions from non-controlling shareholders	**80**	610
Distributions to non-controlling shareholders	**(2,798)**	(433)
Dividend paid to equity holders of the Company	**–**	(1,077)
Proceeds from bills discounted	**29**	25
NET CASH USED IN FINANCING ACTIVITIES	**(1,598)**	(2,377)
Net increase in cash and cash equivalents	**21,906**	47,209
Cash and cash equivalents, at the beginning of the period	**71,872**	41,188
Effect of foreign exchange rate changes	**(17)**	(62)
Cash and cash equivalents, at the end of the period	**93,761**	88,335

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. PRINCIPAL ACTIVITIES AND ORGANISATION

Principal activities

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

Organisation

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

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

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

In 2005, the Company issued 3,089,620,455 H shares with a par value of RMB1.00 each, at a price of Hong Kong Dollars ("HKD") 7.50 per H share by way of a global initial public offering. In addition, 308,962,045 domestic state-owned ordinary shares of RMB1.00 each owned by Shenhua Group were converted into H shares. A total of 3,398,582,500 H shares were listed on The Stock Exchange of Hong Kong Limited.

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

Immediate parent and ultimate controlling party

On 28 August 2017, Shenhua Group received the *Notice regarding the Restructuring of China Guodian Corporation and Shenhua Group Corporation Limited* (Guo Zi Fa Gai Ge [2017] No. 146) from the State-owned Assets Supervision and Administration Commission of the State Council, which approves that China Guodian Corporation (the "China Guodian") and Shenhua Group shall implement the joint restructuring, China Guodian shall be merged into Shenhua Group, and the company name of Shenhua Group shall be changed to China Energy Group. China Energy Group will be the parent company after the completion of the restructuring.

On 27 November 2017, Shenhua Group completed the industrial and commercial registration of changes in the business license. The Directors consider the immediate parent and the ultimate holding company of the Group to be China Energy Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on historical cost basis except for certain financial instruments which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources:

- sale of coal
- sale of power
- rendering of railway, port, shipping services
- sale of coal chemical products

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or services is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

3.1.2 Summary of effects arising from initial application of IFRS 15

There is no impact on retained earnings of transition to IFRS 15 at 1 January 2018.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 *RMB million*	Reclassification *RMB million*	**Carrying amounts under IFRS 15 at 1 January 2018*** ***RMB million***
Current Liabilities			
Accrued expenses and other payables	51,995	(5,530)	**46,465**
Contract liabilities	–	5,530	**5,530**
	51,995	–	**51,995**

* The amounts in this column are before the adjustments from application of IFRS 9.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers* (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15 (Continued)

At the date of initial application, 1 January 2018, advances received from customers of RMB5,530 million for the sales of coal, power, and coal chemical products, and the provision of transportation services previously included in accrued expenses and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported *RMB million*	Adjustments *RMB million*	Amounts without application of IFRS 15 *RMB million*
Current Liabilities			
Accrued expenses and other payables	62,149	6,041	68,190
Contract liabilities	6,041	(6,041)	–
	68,190	–	68,190

Upon application of IFRS 15, advances received from customers for the sales of coal, power, and coal chemical products, and the provision of transportation services have been classified as contract liabilities instead of being included as part of accrued expenses and other payables under IAS 18.

There is no impact of applying IFRS 15 on the condensed consolidated statement of profit and loss and other comprehensive income for the current interim period.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and financial guarantee contracts.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Accounts and bills receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the other reserves; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The Directors reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts and bills receivables, other receivables, long-term receivables, loans to China Energy Group and fellow subsidiaries, entrusted loans and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts and bills receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group considers that default has occurred when the instrument is more than 90 past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Measurement and recognition of ECL (Continued)

Except for financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments with the corresponding adjustment recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	**Available-for-sale ("AFS")** *RMB million*	**Financial assets at FVTPL required by IAS 39/ IFRS 9** *RMB million*	**Equity instruments at FVTOCI** *RMB million*	**Other reserves** *RMB million*	**Retained earnings** *RMB million*
Closing balance at 31 December 2017 – IAS 39		854	–	–	(14,214)	186,824
Effect arising from initial application of IFRS 9:						
Reclassification						
From AFS	(a)	(854)	105	749	(692)	692
Opening balance at 1 January 2018		–	105	749	(14,906)	187,516

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(a) *AFS investments*

From AFS equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as AFS, of which RMB749 million related to unquoted equity investments previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB749 million relating to unquoted equity investments previously measured at cost less impairment under IAS 39 were reclassified from AFS investments to equity instruments at FVTOCI. No fair value change relating to those unquoted equity investments previously carried at cost less impairment was adjusted to equity instruments at FVTOCI and other reserves as at 1 January 2018. In addition, impairment losses previously recognised of RMB688 million were transferred from retained earnings to other reserves as at 1 January 2018.

From AFS investments to FVTPL

Wealth management product investments with a fair value of RMB105 million were reclassified from AFS investments to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the IFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding. Related fair value gains of RMB4 million were transferred from other reserves to retained earnings as at 1 January 2018.

(b) *Impairment under ECL model*

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts and bills receivables. To measure the ECL, accounts and bills receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprising of restricted bank deposits, time deposits with original maturity over three months, cash and cash equivalents, loans and advances to China Energy Group and fellow subsidiaries and entrusted loans, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

For outstanding financial guarantees provided to an associate of RMB40 million and to an investee of RMB182 million, the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is measured on 12m ECL basis.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial Instruments* and the related amendments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(b) Impairment under ECL model (Continued)

As at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings as there is no significant increase in credit risk.

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 (Audited) *RMB million*	IFRS 15 *RMB million*	IFRS 9 *RMB million*	**1 January 2018 (Restated)** ***RMB million***
Non-current Assets				
Available-for-sale investments	854	–	(854)	**–**
Financial assets at FVTPL	–	–	105	**105**
Equity instruments at FVTOCI	–	–	749	**749**
	854	–	–	**854**
Current Liabilities				
Accrued expenses and other payables	51,995	(5,530)	–	**46,465**
Contract liabilities	–	5,530	–	**5,530**
	51,995	–	–	**51,995**
Equity				
Other reserves	(14,214)	–	(692)	**(14,906)**
Retained earnings	186,824	–	692	**187,516**
	172,610	–	–	**172,610**

4. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	For the six months ended 30 June															
Segments	**Coal**		**Power**		**Railway**		**Port**		**Shipping**		**Coal chemical**		**Others**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Types of goods or service																
Sales of goods																
Coal	**77,490**	75,515	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**77,490**	75,515
Power	**–**	–	**40,114**	35,886	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**40,114**	35,886
Coal chemical products	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**2,775**	2,717	**–**	–	**2,775**	2,717
Others	**1,879**	1,757	**500**	334	**–**	–	**–**	–	**–**	–	**257**	279	**–**	–	**2,636**	2,370
	79,369	77,272	**40,614**	36,220	**–**	–	**–**	–	**–**	–	**3,032**	2,996	**–**	–	**123,015**	116,488
Transportation and other services																
Railway	**–**	–	**–**	–	**2,451**	2,370	**–**	–	**–**	–	**–**	–	**–**	–	**2,451**	2,370
Port	**–**	–	**–**	–	**–**	–	**311**	291	**–**	–	**–**	–	**–**	–	**311**	291
Shipping	**–**	–	**–**	–	**–**	–	**–**	–	**438**	289	**–**	–	**–**	–	**438**	289
Others	**–**	–	**–**	–	**351**	309	**55**	81	**–**	–	**–**	–	**759**	690	**1,165**	1,080
	–	–	**–**	–	**2,802**	2,679	**366**	372	**438**	289	**–**	–	**759**	690	**4,365**	4,030
Total	**79,369**	77,272	**40,614**	36,220	**2,802**	2,679	**366**	372	**438**	289	**3,032**	2,996	**759**	690	**127,380**	120,518
Geographical markets																
Domestic markets	**78,190**	75,922	**40,246**	35,871	**2,802**	2,679	**366**	372	**438**	289	**3,032**	2,996	**759**	690	**125,833**	118,819
Overseas markets	**1,179**	1,350	**368**	349	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**1,547**	1,699
Total	**79,369**	77,272	**40,614**	36,220	**2,802**	2,679	**366**	372	**438**	289	**3,032**	2,996	**759**	690	**127,380**	120,518
Timing of revenue recognition																
A point in time	**79,369**	77,272	**40,614**	36,220	**–**	–	**–**	–	**–**	–	**3,032**	2,996	**–**	–	**123,015**	116,488
Over time	**–**	–	**–**	–	**2,802**	2,679	**366**	372	**438**	289	**–**	–	**759**	690	**4,365**	4,030
Total	**79,369**	77,272	**40,614**	36,220	**2,802**	2,679	**366**	372	**438**	289	**3,032**	2,996	**759**	690	**127,380**	120,518

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

4. REVENUE FROM GOODS AND SERVICES (CONTINUED)

Disaggregation of revenue (Continued)

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the six months ended 30 June															
Segments	Coal		Power		Railway		Port		Shipping		Coal chemical		Others		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue disclosed in segment information																
External customers	79,369	77,272	40,614	36,220	2,802	2,679	366	372	438	289	3,032	2,996	759	690	127,380	120,518
Inter-segment	20,610	18,759	154	212	16,339	15,827	2,616	2,425	1,596	1,159	–	–	494	499	41,809	38,881
	99,979	96,031	40,768	36,432	19,141	18,506	2,982	2,797	2,034	1,448	3,032	2,996	1,253	1,189	169,189	159,399
Adjustment and eliminations	(20,610)	(18,759)	(154)	(212)	(16,339)	(15,827)	(2,616)	(2,425)	(1,596)	(1,159)	–	–	(494)	(499)	(41,809)	(38,881)
Revenue from contracts with customers	79,369	77,272	40,614	36,220	2,802	2,679	366	372	438	289	3,032	2,996	759	690	127,380	120,518

5. SEGMENT AND OTHER INFORMATION

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

(1) Coal operations – which produce coal from surface and underground mines, and the sale of coal to external customers, the power operations segment and the coal chemical operations segment. The Group sells its coal under long-term supply contracts, which allow periodical price adjustments, and at spot market.

(2) Power operations – which use coal from the coal operations segment and external suppliers, thermal power, wind power, water power and gas power to generate electric power for the sale to coal operations segment and external customers. Electric power is sold to the power grid companies in accordance with planned power output at the tariff rates as approved by the relevant government authorities. Electric power produced in excess of the planned power output is sold at the tariff rate as agreed upon with the respective power grid companies which are generally lower than the tariff rates for planned power output.

(3) Railway operations – which provide railway transportation services to the coal operations segment, the power operations segment, the coal chemical operations segment and external customers. The rates of freight charges billed to the coal operations segment, the power operations segment, the coal chemical operations segment and external customers are consistent and do not exceed the maximum amounts approved by the relevant government authorities.

5. SEGMENT AND OTHER INFORMATION (CONTINUED)

(4) Port operations – which provide loading, transportation and storage services to the coal operations segment and external customers. The Group charges service fees and other expenses, which are reviewed and approved by the relevant government authorities.

(5) Shipping operations – which provide shipment transportation services to the power operations segment, the coal operations segment and external customers. The rates of freight charges billed to the power operations segment, the coal operations segment and external customers are consistent.

(6) Coal chemical operations – which use coal from the coal operations segment to first produce methanol and further process into polyethylene and polypropylene, together with other by-products, for sale to external customers. The Group sells its polyethylene and polypropylene at spot market.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results attributable to each reportable segment based on profit before income tax ("reportable segment profit"). Segment profit represents the profit earned by each segment without allocation of head office and corporate items. Inter-segment sales are primarily charged at prevailing market rate which are the same as those charged to external customers.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

5. SEGMENT AND OTHER INFORMATION (CONTINUED)

(a) Segment results (Continued)

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 is set out below:

	Six months ended 30 June													
	Coal		Power		Railway		Port		Shipping		Coal chemical		Segment total	
	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)
Revenue from external customers	79,369	77,272	40,614	36,220	2,802	2,679	366	372	438	289	3,032	2,996	126,621	119,828
Inter-segment revenue	20,610	18,759	154	212	16,339	15,827	2,616	2,425	1,596	1,159	–	–	41,315	38,382
Reportable segment revenue	99,979	96,031	40,768	36,432	19,141	18,506	2,982	2,797	2,034	1,448	3,032	2,996	167,936	158,210
Reportable segment profit	23,112	24,688	4,374	2,344	8,383	7,752	1,253	1,495	452	240	318	274	37,892	36,793
Including:														
Interest expenses	612	696	1,328	1,072	473	533	188	198	14	34	38	66	2,653	2,599
Depreciation and amortisation	3,668	3,596	4,882	4,985	2,506	2,387	568	541	147	146	447	453	12,218	12,108
Share of results of associates	83	118	179	85	–	–	–	7	–	–	–	–	262	210
Impairment (reversal) loss	(20)	322	–	65	–	–	–	–	–	–	–	–	(20)	387

(b) Reconciliations of reportable segment revenue, segment profit and other items of profit or loss for the six months ended 30 June 2018 and 2017 are set out below:

	Reportable segment amounts		Unallocated head office and corporate items		Elimination of inter-segment amounts		Consolidated	
	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)	2018 RMB million (Unaudited)	2017 RMB million (Unaudited)
Revenue	167,936	158,210	1,253	1,189	(41,809)	(38,881)	127,380	120,518
Profit before income tax	37,892	36,793	792	1,197	(192)	5	38,492	37,995
Interest expenses	2,653	2,599	520	944	(1,038)	(1,127)	2,135	2,416
Depreciation and amortization	12,218	12,108	50	131	–	–	12,268	12,239
Share of results of associates	262	210	12	13	–	–	274	223
Impairment (reversal) loss	(20)	387	29	(1)	–	–	9	386

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

5. SEGMENT AND OTHER INFORMATION (CONTINUED)

(c) Other information

Certain other information of the Group's segments for the six months ended 30 June 2018 and 2017 is set out below:

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Coal purchased	**27,863**	22,848	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**27,863**	22,848
Cost of coal production	**19,966**	19,778	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(5,389)**	(4,453)	**14,577**	15,325
Cost of coal transportation	**25,238**	25,036	**–**	–	**7,901**	7,775	**1,254**	1,198	**608**	579	**–**	–	**–**	–	**(20,551)**	(19,411)	**14,450**	15,177
Power cost	**–**	–	**33,842**	31,497	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(14,596)**	(13,810)	**19,246**	17,687
Cost of coal chemical production	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**2,349**	2,336	**–**	–	**(608)**	(727)	**1,741**	1,609
Others	**1,557**	1,845	**128**	272	**1,729**	1,862	**159**	156	**918**	542	**258**	276	**16**	16	**–**	–	**4,765**	4,969
Total cost of sales	**74,624**	69,507	**33,970**	31,769	**9,630**	9,637	**1,413**	1,354	**1,526**	1,121	**2,607**	2,612	**16**	16	**(41,144)**	(38,401)	**82,642**	77,615
Profit from operations *(note (i))*	**23,250**	24,378	**5,393**	3,237	**9,029**	8,409	**1,443**	1,329	**451**	270	**342**	319	**714**	836	**(665)**	(480)	**39,957**	38,298
Additions to non-current assets *(note (ii))*	**1,489**	1,312	**4,736**	6,382	**1,230**	1,875	**49**	166	**1**	–	**63**	28	**14**	14	**–**	–	**7,582**	9,777

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	June 30 2018	December 31 2017	**June 30 2018**	December 31 2017	**June 30 2018**	December 31 2017	**June 30 2018**	December 31 2017	**June 30 2018**	December 31 2017	**June 30 2018**	December 31 2017	**June 30 2018**	December 31 2017	**June 30 2018**	December 31 2017	**June 30 2018**	December 31 2017
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Total assets *(note (iii))*	**243,906**	225,672	**224,431**	215,910	**133,694**	129,829	**25,097**	24,211	**7,429**	7,865	**10,291**	10,982	**406,028**	381,056	**(454,302)**	(423,923)	**596,574**	571,602
Total liabilities *(note (iii))*	**(116,233)**	(114,713)	**(162,080)**	(152,157)	**(63,321)**	(65,772)	**(10,570)**	(10,607)	**(766)**	(1,527)	**(2,635)**	(3,619)	**(203,887)**	(169,782)	**353,569**	325,680	**(205,923)**	(192,497)

Notes:

(i) Profit from operations is calculated as revenue minus cost of sales, selling expenses, general and administrative expenses and impairment loss.

(ii) Non-current assets exclude financial instruments and deferred tax assets.

(iii) Unallocated items of total assets include deferred tax assets and other unallocated corporate assets. Unallocated items of total liabilities include deferred tax liabilities and other unallocated corporate liabilities.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

6. COST OF SALES

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Coal purchased	**27,863**	22,848
Materials, fuel and power	**10,701**	9,181
Personnel expenses	**6,593**	6,356
Depreciation and amortisation	**10,761**	10,765
Repairs and maintenance	**4,912**	5,010
Transportation charges	**7,453**	7,222
Taxes and surcharges	**4,940**	4,870
Other operating costs	**9,419**	11,363
	82,642	77,615

7. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Government grants	**124**	304
Claim income	**19**	16
Other	**104**	205
	247	525

8. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Interest expense	**2,475**	2,758
Less: amount capitalised	**(422)**	(404)
	2,053	2,354
Unwinding of discount	**82**	62
Exchange loss (gain), net	**136**	(85)
	2,271	2,331

9. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Current tax, mainly PRC enterprise income tax ("EIT")	**7,362**	7,071
Under provision in respect of prior periods	**1,110**	129
Deferred tax	**133**	(44)
	8,605	7,156

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 2017: 25%) except for Group's overseas subsidiaries and branches as well as subsidiaries operating in the western developing region of the PRC which are entitled to a preferential tax rate of 15% from 2011 to 2020.

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

	Six months ended 30 June	
	2018	2017
	%	*%*
Australia	**30.0**	30.0
Indonesia	**25.0**	25.0
Russia	**20.0**	20.0
Hong Kong	**16.5**	16.5

During the six months ended 30 June 2018 and 2017, there was no significant assessable profit and provision for income tax for the overseas subsidiaries.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

10. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Personnel expenses, including	**12,406**	10,258
– contributions to defined contribution plans	**1,501**	1,381
Depreciation of property, plant and equipment	**11,358**	11,521
Amortisation of intangible assets, included in cost of sales	**196**	227
Amortisation of lease prepayments, included in cost of sales	**243**	230
Amortisation of other non-current assets	**471**	261
Depreciation and amortisation	**12,268**	12,239
Impairment losses, net of reversal, represent		
– impairment of loans receivable	**29**	–
– reversal allowance for doubtful debts	**(20)**	–
	9	–
Other (gains) and losses, represent		
– losses (gains) on disposal of property, plant and equipment, intangible assets and non-current assets	**9**	(456)
– gains on disposal of wealth management products	**–**	(487)
– losses (gains) on disposal of derivative financial instruments	**6**	(2)
– net (gain)/loss arising on financial assets measured at FVTPL	**(7)**	1
– net gain arising on financial liabilities measured at FVTPL	**(4)**	–
– impairment in respect of property, plant and equipment *(note)*	**–**	308
– impairment reversal of loans receivable	**–**	(1)
– reversal allowance for doubtful debts	**–**	(56)
– impairment of available-for-sale investments	**–**	65
– write down of inventories	**–**	70
	4	(558)
Carrying amount of inventories sold	**64,241**	56,690
Operating lease expenses in respect of properties and equipment	**176**	157
Exchange loss (gain), net	**136**	(85)

Note:

On 29 June 2017, Pursuant to the established policies of protection of agricultural activities on the black soil plains, the NSW Government withdrew the exploration license of approximately 100 square kilometres ("the withdrawn area") within Watermark total exploration area of 195 square kilometres. As a result, the use of land of the withdrawn area has to be changed and the Directors assessed the recoverable amount of the withdrawn area based on the new purpose of use and recognised an impairment loss of AUD46 million (equivalent to RMB239 million) as at 30 June 2017. The fair value was determined based on market prices of similar land by the Directors. The land belongs to coal operation segment, and the fair value on which the recoverable amount is based on is categorised as a Level 2 measurement.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

11. DIVIDENDS

During the current interim period, a final dividend in respect of the year ended 31 December 2017 of RMB0.91 per ordinary share totaling RMB18,100 million (six months ended 30 June 2017: RMB0.46 per ordinary share totaling RMB9,149 million and a special dividend of RMB2.51 per ordinary share totaling RMB49,923 million in respect of the year ended 31 December 2016) was approved at the annual general meeting held on 22 June 2018 and paid in full by July 2018.

The Directors have determined that no dividend will be paid in respect of the current interim period (six months ended 30 June 2017: Nil).

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2018 was based on the profit attributable to ordinary equity holders of the Company of RMB24,520 million (six months ended 30 June 2017: RMB26,298 million) and the number of shares in issue during the six months ended 30 June 2018 of 19,890 million shares (six months ended 30 June 2017: 19,890 million shares).

No diluted earnings per share is presented as there were no potential ordinary shares in existence for both periods.

13. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2018, the additions of property, plant and equipment (excluding transferred from construction in progress) and construction in progress amounted to RMB561 million (six months ended 30 June 2017: RMB603 million) and RMB6,018 million (six months ended 30 June 2017: RMB8,383 million), respectively. The disposals of property, plant and equipment amounted to RMB1,176 million (six months ended 30 June 2017: RMB1,039 million).

The Group is in the process of applying for the title certificates of certain of its properties with an aggregate carrying amount of RMB9,444 million as at 30 June 2018 (31 December 2017: RMB8,771 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

As at 30 June 2018, the Group is in the process of obtaining requisite permits for certain of its power plants and railways from the relevant government authorities. The Directors are of the opinion that the Group will be able to obtain the requisite permits in due course.

No impairment loss was recognised by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB308 million).

As at 30 June 2018, the Group has bank loans secured by the Group's property, plant and equipment with carrying amount of RMB610 million (31 December 2017: RMB644 million).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

14. OTHER NON-CURRENT ASSETS

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Prepayments in connection with construction work, equipment purchases and others	**9,161**	8,189
Prepayment for mining projects	**8,000**	8,000
Deductible VAT and other tax	**1,874**	1,834
Long-term receivable	**319**	318
Loans to China Energy Group and fellow subsidiaries	**7,505**	9,699
Long-term entrusted loans	**420**	420
Goodwill	**889**	889
Others	**4,334**	4,117
	32,502	33,466

15. LEASE PREPAYMENTS

Lease prepayments represent land use rights paid to the PRC's government authorities. The Group is in the process of applying for the title certificates of certain land use rights certificates with an aggregate carrying amount of RMB2,053 million as at 30 June 2018 (31 December 2017: RMB2,097 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

As at 30 June 2018, the Group has bank loans secured by the Group's lease prepayments with carrying amount of RMB848 million (31 December 2017: RMB892 million).

16. INVENTORIES

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Coal	**6,735**	4,579
Materials and supplies	**7,015**	5,882
Others *(note)*	**1,175**	1,186
	14,925	11,647

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

17. ACCOUNTS AND BILLS RECEIVABLES

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Accounts receivable		
– China Energy Group and fellow subsidiaries	2,741	2,377
– Associates	173	179
– Third parties	11,844	11,802
	14,758	14,358
Less: allowance for doubtful debts	(1,018)	(1,039)
	13,740	13,319
Bills receivable		
– China Energy Group and fellow subsidiaries	30	57
– Associates	–	54
– Third parties	6,067	6,025
	6,097	6,136
	19,837	19,455

Bills receivable were mainly issued by PRC banks and are expiring within one year. As at 30 June 2018, bills receivable with carrying amount of RMB10 million (31 December 2017: RMB388 million) were pledged to secure bills payable.

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

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Less than one year	12,008	10,411
One to two years	1,063	1,648
Two to three years	432	1,027
More than three years	237	233
	13,740	13,319

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

18. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Financial assets at FVTPL		
– Derivative financial instruments	–	56
– Tradable wealth management products	–	52
– Wealth management products	108	–
	108	108
Prepaid expenses and deposits	7,375	8,115
Loans and advances to China Energy Group and fellow subsidiaries *(note (i))*	8,554	5,262
Amounts due from associates	306	535
Deductible VAT and other tax	2,590	3,075
Other receivables	5,521	3,357
Advances to staff	83	–
	24,537	20,452

Note:

(i) As at 30 June 2018, the Group had unsecured loans to China Energy Group and fellow subsidiaries amounting to RMB8,374 million (31 December 2017: RMB5,059 million), which bear interest at a rate of 3.92% to 4.28% per annum (31 December 2017: 3.92% to 4.28% per annum). The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

19. CASH AND CASH EQUIVALENTS

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

20. BORROWINGS

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

	30 June 2018 ***RMB million*** **(Unaudited)**	31 December 2017 *RMB million* (Audited)
Current borrowings:		
– Short-term bank and other borrowings	**11,812**	9,493
– Current portion of long-term borrowings	**6,265**	6,292
	18,077	15,785
Non-current borrowings:		
– Long-term borrowings, less current portion	**68,527**	64,321
	86,604	80,106
Secured	**12,052**	9,381
Unsecured	**74,552**	70,725
	86,604	80,106

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

Within one year	**6,265**	6,292
More than one year, but not exceeding two years	**7,828**	6,141
More than two years, but not exceeding five years	**10,921**	17,089
More than five years	**49,778**	41,091
	74,792	70,613

As at 30 June 2018, the Group had entrusted loans from China Energy Group and fellow subsidiaries amounting to RMB1,374 million (31 December 2017: RMB1,374 million).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

21. ACCOUNTS AND BILLS PAYABLES

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Accounts payable		
– China Energy Group, an associate of China Energy Group and fellow subsidiaries	1,860	1,874
– Associates	380	283
– Third parties	26,868	29,431
	29,108	31,588
Bills payable	1,067	2,326
	30,175	33,914

As at 30 June 2018, certain bills payable were secured by bills receivables held by the Group (see Note 17).

The following is an aging analysis of accounts and bills payables, presented based on invoice date:

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Less than one year	21,880	25,241
One to two years	2,309	2,576
Two to three years	1,541	2,431
More than three years	4,445	3,666
	30,175	33,914

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

22. ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Accrued staff wages and welfare benefits	**5,587**	4,042
Accrued interest *(note (ii))*	**567**	472
Taxes payable other than income tax	**5,599**	7,408
Dividends payable *(note (ii))*	**19,837**	4,149
Cross-currency exchange rate swaps	**8**	12
Receipts in advances	**–**	5,530
Deposits from China Energy Group and fellow subsidiaries *(note (i))*	**17,673**	20,075
Other accrued expenses and payables *(note (ii))*	**12,878**	10,307
	62,149	51,995

Notes:

(i) As at 30 June 2018, deposits from China Energy Group and fellow subsidiaries bore interest at 0.42% to 1.62% per annum (31 December 2017: 0.42% to 1.62% per annum).

(ii) Other accrued expenses and payables, accrued interest, and dividends payable of the Group include:

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Amounts due to China Energy Group and fellow subsidiaries	**14,206**	1,238
Amounts due to associates	**18**	28
	14,224	1,266

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

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

23. LONG-TERM LIABILITIES

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Payables for acquisition of mining rights *(note (i))*	**809**	852
Deferred income *(note (ii))*	**1,376**	1,367
Defined benefit plans	**149**	128
Others	**334**	290
	2,668	2,637
Analysed for reporting purpose as:		
– Current liabilities	**307**	345
– Non-current liabilities	**2,361**	2,292
	2,668	2,637

Notes:

(i) The balances mainly represent payables for acquisition of mining rights which are to be settled over the period of production set out in the contracts on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the acquired mines in the acquisition agreements.

(ii) Deferred income mainly represents grants provided by several local governments in the PRC to encourage the construction of non-current assets.

24. ACCRUED RECLAMATION OBLIGATIONS

The accrual for reclamation costs has been determined based on management's best estimates. However, so far as the effect on the land from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to change. Accordingly, the actual costs and cash flows may differ from estimates. The Directors believe that the accrued reclamation obligations at 30 June 2018 are adequate and appropriate.

25. SHARE CAPITAL

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Registered, issued and fully paid:		
16,491,037,955 domestic listed A shares of RMB1.00 each	**16,491**	16,491
3,398,582,500 H shares of RMB1.00 each	**3,399**	3,399
	19,890	19,890

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

26. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2018, the Group had capital commitments for land and buildings and equipment as follows:

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Contracted for but not provided		
– Land and buildings	25,058	19,485
– Equipment	19,069	14,425
	44,127	33,910

(b) Operating lease commitments

Operating lease commitments mainly represent business premises, mining related machineries and equipment leased through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. As at 30 June 2018, future minimum lease payments under non-cancellable operating leases on business premises, mining related machineries and equipment having initial or remaining lease terms of more than one year are payable as follows:

	30 June 2018 RMB million (Unaudited)	31 December 2017 RMB million (Audited)
Within one year	356	373
After one year but within five years	1,126	1,144
After five years	475	606
	1,957	2,123

(c) Financial guarantees issued

As at 30 June 2018, the Group had issued certain guarantees in respect of certain banking facilities granted to an entity of which the Group held less than 20% equity interest and accounted for as equity instruments at FVTOCI. The maximum amount guaranteed is RMB176 million (31 December 2017: RMB182 million).

As at 30 June 2018, the Group had issued guarantees in respect of certain banking facilities granted to an associate of the Group. The maximum amount guaranteed is RMB58 million (31 December 2017: RMB40 million).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

26. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(d) Legal contingencies

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

(e) Environmental contingencies

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

27. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

	30 June 2018 ***RMB million*** **(Unaudited)**	31 December 2017 *RMB million* (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets:				
Derivative financial instruments Included in "prepaid expenses and other current assets" line item	**–**	56	Level 1	Quoted price in an active market.
Tradable wealth management products Included in "prepaid expenses and other current assets" line item	**–**	52	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return of comparable products.
Wealth management products Included in "prepaid expenses and other current assets" line item	**108**	105	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return of comparable products.
Unquoted equity investment Included in "equity instruments at FVTOCI" line item	**812**	N/A	Level 3	Market comparison approach. Fair value is estimated based on value of comparable listed companies, multiples and discounted for lack of liquidity.
Financial liabilities:				
Derivative financial instruments Included in "accrued expenses and other payables" line item	**8**	12	Level 2	Quoted market prices or dealer prices for similar instruments.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

28. RELATED PARTY TRANSACTIONS

(a) Transactions with China Energy Group, an associate of China Energy Group, fellow subsidiaries and associates of the Group

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

The Group had the following transactions with China Energy Group, an associate of China Energy Group, fellow subsidiaries, and associates of the Group during both periods:

		Six months ended 30 June	
		2018	2017
		RMB million	*RMB million*
		(Unaudited)	(Unaudited)
Interest income	(i)	**299**	310
Income from entrusted loans	(ii)	**9**	14
Interest expense	(iii)	**140**	101
Purchases of ancillary materials and spare parts	(iv)	**538**	351
Mining service income	(v)	**9**	–
Ancillary and social services	(vi)	**417**	109
Transportation service income	(vii)	**99**	95
Transportation service expense	(viii)	**–**	–
Sale of coal	(ix)	**3,052**	3,403
Purchase of coal	(x)	**4,569**	5,295
Property leasing expense	(xi)	**19**	9
Repairs and maintenance services expense	(xii)	**–**	–
Coal export agency expense	(xiii)	**3**	7
Purchase of equipment and construction work	(xiv)	**333**	239
Sale of coal chemical product	(xv)	**2,414**	2,368
Other income	(xvi)	**380**	649
Granting of loans from Shenhua Finance	(xvii)	**2,596**	2,078
Repayment of loans from Shenhua Finance	(xviii)	**1,446**	2,127
Granting of entrusted loan	(xix)	**–**	–
Repayment of entrusted loan	(xx)	**–**	–
Net deposits (paid) received by Shenhua Finance	(xxi)	**(2,402)**	2,232
Loans from China Energy Group	(xxii)	**–**	–
Repayment of loans from China Energy Group	(xxiii)	**–**	3,450

(i) Interest income represents interest earned from loans to China Energy Group and fellow subsidiaries. The applicable interest rate is determined in accordance with the prevailing interest rates published by the People's Bank of China (the "PBOC").

(ii) Income from entrusted loans represents interest earned from entrusted loans to an associate of the Group. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.

28. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(iii) Interest expense represents interest incurred from deposits placed and loans from China Energy Group and fellow subsidiaries. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.

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

(v) Mining service income represents income earned from coal mining services to a fellow subsidiary.

(vi) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen expense paid to fellow subsidiaries and an associate of China Energy Group.

(vii) Transportation service income represents income earned from fellow subsidiaries in respect of coal transportation services.

(viii) Transportation service expense represents expense related to coal transportation service.

(ix) Sale of coal represents income from sale of coal to fellow subsidiaries.

(x) Purchase of coal represents coal purchased from associates of the Group, associates of China Energy Group and fellow subsidiaries.

(xi) Property leasing represents rental paid or payable in respect of properties leased from fellow subsidiaries.

(xii) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services.

(xiii) Coal export agency expense represents expense related to coal export agency services provided by a fellow subsidiary.

(xiv) Purchase of equipment and construction work represents expenditure related to equipment and construction service provided by fellow subsidiaries.

(xv) Sale of coal chemical product represents income from sale of coal chemical product to fellow subsidiaries.

(xvi) Other income includes agency income, repairs and maintenance service income, sales of ancillary materials and spare parts, management fee income, sales of water and electricity, financial service income, etc. earned from China Energy Group and fellow subsidiaries.

(xvii) Granting of loans from Shenhua Finance represents loans granted by Shenhua Finance to China Energy Group and fellow subsidiaries.

(xviii) Repayment of loans from Shenhua Finance represents loans repaid by China Energy Group and fellow subsidiaries to Shenhua Finance.

(xix) Granting of entrusted loan represents an entrusted loan granted by a related party.

(xx) Repayment of entrusted loan represents an entrusted loan repaid by a related party.

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

(xxii) Loans obtained by the Group.

(xxiii) Repayment of loans from a fellow subsidiary by the Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

28. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

	30 June 2018 ***RMB million*** **(Unaudited)**	31 December 2017 *RMB million* (Audited)
Accounts and bills receivables	**2,871**	2,594
Prepaid expenses and other current assets	**8,860**	5,797
Other non-current assets	**7,945**	10,139
Total amounts due from China Energy Group, an associate of China Energy Group, fellow subsidiaries and associates of the Group	**19,676**	18,530
Borrowings	**1,374**	1,374
Accounts payables	**2,240**	2,157
Accrued expenses and other payables	**31,897**	21,341
Contract liabilities	**358**	–
Total amounts due to China Energy Group, an associate of China Energy Group, fellow subsidiaries and associates of the Group	**35,869**	24,872

(b) Key management personnel emoluments

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

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

	Six months ended 30 June	
	2018 ***RMB million*** **(Unaudited)**	2017 *RMB million* (Unaudited)
Short-term employee benefits	**5**	4
Post-employment benefits	**–**	–
	5	4

Total remuneration is included in "personnel expenses" as disclosed in Note 10.

28. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Contributions to post-employment benefit plans

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

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

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by government-related entities.

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

– Power sales;

– Sales and purchases of coal;

– Transportation services;

– Construction work;

– Purchases of ancillary materials and spare parts;

– Ancillary and social services; and

– Financial services arrangements.

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

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2018

28. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Coal revenue	**45,003**	43,300
Power revenue	**39,691**	35,442
Transportation costs	**5,234**	5,207
Interest income	**423**	292
Interest expenses (including amount capitalised)	**2,178**	2,485

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

	30 June 2018	31 December 2017
	RMB million	*RMB million*
	(Unaudited)	(Audited)
Accounts and bills receivables	**6,104**	7,954
Prepaid expenses and other current assets	**783**	683
Cash and time deposits at banks	**96,216**	73,728
Restricted bank deposits	**8,473**	7,348
Borrowings	**85,229**	78,326
Accrued expenses and other payables	**1,915**	2,915
Contract liabilities	**2,357**	–

29. EMPLOYEE BENEFITS PLAN

In addition to a minimal defined benefit plan operated by its subsidiary, the Group participates, in line with the regulations of the PRC, mainly in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 20% of the salaries, bonuses and certain allowances of the employees. In addition, as approved by the government, the Group makes contribution to a supplemental defined contribution pension plan for its employees. The fund is managed by a qualified fund manager. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the six months ended 30 June 2018 were RMB1,501 million (six months ended 30 June 2017: RMB1,381 million).

Section XI Documents Available for Inspection

Documents available for inspection	The interim report for the year 2018 signed by the Chairman The financial statements signed and sealed by the Chairman, the Chief Financial Officer, and the Accountant in Charge The original copy of the review report sealed by the accounting firm and signed and sealed by the certified public accountants The original copies of all documents and announcements of the Company publicly disclosed in the newspapers designated by the CSRC during the reporting period The interim report for the year 2018 published on the Shanghai Stock Exchange and the Hong Kong Stock Exchange

Ling Wen, *Chairman*

Approval date of the board of directors for submission: 24 August 2018

Section XII Signing Page for Opinions

Pursuant to Article 68 of the Securities Law of the People's Republic of China and Article 14 of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 3 – The Contents and Formats of Interim Report (Revised Edition 2017), having fully understood and reviewed the 2018 Interim Report of the Company, the directors, supervisors and senior management are of the opinion that information disclosed in the 2018 Interim Report is true, accurate and complete. We hereby guarantee that the information stated in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the content thereof.

Directors

(Ling Wen)

(Li Dong)

(Gao Song)

(Mi Shuhua)

(Zhao Jibin)

(Tam Wai Chu)

(Jiang Bo)

(Zhong Yingjie)

(Peng Suping)

(Huang Ming)

Section XII Signing Page for Opinions (Continued)

Supervisors

(Zhai Richeng) (Zhou Dayu) (Shen Lin)

Senior Management

(Li Dong) (Wang Jinli) (Wang Shumin)

(Zhang Jiming) (Lv Zhiren) (Jia Jinzhong)

(Huang Qing) (Zhang Kehui) (Zhang Guangde)

China Shenhua Energy Company Limited
24 Aug 2018