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中国神华
CHINA SHENHUA

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

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

(Stock Code: 01088)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- Revenue of the Group in the first half of 2018 were RMB127,380 million, representing an increase of RMB6,862 million or 5.7% over the same period of 2017.

- Profit for the period attributable to equity holders of the Company was RMB24,520 million, representing a decrease of RMB1,778 million or 6.8% over the same period of 2017.

- Earnings per share for the period was RMB1.233.

- EBITDA in the first half of 2018 was RMB52,281 million, representing an increase of RMB418 million or 0.8% over the same period of 2017.

The Board of China Shenhua Energy Company Limited (the "Company") is pleased to present the interim results of the Company and its subsidiaries (the "Group" or "China Shenhua") for the six months ended 30 June 2018 and to report our performance for the period.

I. INTERIM FINANCIAL INFORMATION

Financial information extracted from the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting":

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
Revenue		
Goods and services	**127,380**	120,518
Cost of sales	**(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	**(4)**	558
Other income	**247**	525
Impairment losses, net of reversal	**(9)**	–
Other expenses	**(187)**	(143)
Interest income	**476**	479
Finance costs	**(2,271)**	(2,331)
Share of results of associates	**274**	223
Profit before income tax	**38,492**	37,995
Income tax expense	**(8,605)**	(7,156)
Profit for the period	**29,887**	30,839

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
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	**1.233**	1.322

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	30 June 2018 *RMB million* **(Unaudited)**	31 December 2017 *RMB million* (Audited)
Non-current assets		
Property, plant and equipment	**322,625**	329,970
Construction in progress	**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	**32,502**	33,466
Lease prepayments	**17,639**	17,858
Deferred tax assets	**3,700**	3,798
Total non-current assets	**432,569**	438,958
Current assets		
Inventories	**14,925**	11,647
Accounts and bills receivables	**19,837**	19,455
Prepaid expenses and other current assets	**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	**93,761**	71,872
Total current assets	**164,005**	132,644
Current liabilities		
Borrowings	**18,077**	15,785
Accounts and bills payables	**30,175**	33,914
Accrued expenses and other payables	**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	**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

	30 June 2018 *RMB million* (Unaudited)	31 December 2017 *RMB million* (Audited)
Non-current liabilities		
Borrowings	**68,527**	64,321
Bonds	**6,572**	6,485
Long-term liabilities	**2,361**	2,292
Accrued reclamation obligations	**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	**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

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*	Share premium *RMB million*	Capital reserve *RMB million*	Exchange reserve *RMB million*	Statutory reserves *RMB million*	Other reserves *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 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	–	–	–	–	–	(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	–	–	–	–	–	–	(18,100)	(18,100)	–	(18,100)
Appropriation of maintenance and production funds	–	–	–	–	2,692	–	(2,692)	–	–	–
Utilisation of maintenance and production funds	–	–	–	–	(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

	Equity attributable to equity holders of the Company									
	Share capital *RMB million*	Share premium *RMB million*	Capital reserve *RMB million*	Exchange reserve *RMB million*	Statutory reserves *RMB million*	Other reserves *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 1 January 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	–	–	–	–	–	–	(59,072)	(59,072)	–	(59,072)
Appropriation of maintenance and production funds	–	–	–	–	2,714	–	(2,714)	–	–	–
Utilisation of maintenance and production funds	–	–	–	–	(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

Note:

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 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	**12,268**	12,239
Other gains and losses	**4**	(558)
Impairment losses	**9**	–
Interest income	**(476)**	(479)
Share of results of associates	**(274)**	(223)
Interest expense	**2,135**	2,416
Exchange loss (gain), net	**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

	Six months ended 30 June	
	2018	2017
	RMB million	*RMB million*
	(Unaudited)	(Unaudited)
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

	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 ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 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.

1.1 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.

1.1.1 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.

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.

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.

1.1.2 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	Reclassification	**Carrying amounts under IFRS 15 at 1 January 2018***
	RMB million	*RMB million*	***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.

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.

1.2 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*.

1.2.1 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.

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 1.2.2.

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.

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.

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.

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 1.2.2.

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.

1.2.2 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")**	**Financial assets at FVTPL required by IAS 39/ IFRS 9**	**Equity instruments at FVTOCI**	**Other reserves**	**Retained earnings**
		RMB million	*RMB million*	*RMB million*	*RMB million*	*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

The financial assets previously classified as loans and receivables are all grouped to amortised cost.

(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.

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.

1.3 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**

	31 December 2017 (Audited) *RMB million*	IFRS 15 *RMB million*	IFRS 9 *RMB million*	**1 January 2018 (Restated)** ***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**
Equity				
Other reserves	(14,214)	–	(692)	**(14,906)**
Retained earnings	186,824	–	692	**187,516**
	172,610	–	–	**172,610**

2. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

Segments	For the six months ended 30 June Coal		Power		Railway		Port		Shipping		Coal chemical		Others		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)	**2018** ***RMB million*** **(unaudited)**	2017 *RMB million* (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

3. 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

4. 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.

5. 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).

6. 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.

II. 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.

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.

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.

III. 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.

IV. 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 generated from/(used in)operating activities of Shenhua Finance Company [Note]	**(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 generated from/(used in)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 Benefitted 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

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
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

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
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 current liabilities	**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
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	**Proportion of total sales**	**Price**	Sales volume	Proportion of total sales	Price	Change in price
	Million tonnes	*%*	*RMB/ tonne*	*Million tonnes*	*%*	*RMB/ tonne*	*%*
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	Sulphur content	Ash content
			kcal/kg	*average, %*	*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	

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%.

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.

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[1] Source of date: China Electricity Council

(2) Power output dispatch and power tariffs

① *Classified by power type*

Power type	Gross power generation billion kWh			Total power output dispatch billion kWh			Power tariff RMB/mWh		
	In the first half of 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

② *Classified by location*

Location/Type of power	Power generation (billion kWh)			Power output dispatch (billion kWh)			Power tariff (RMB/mWh)		
	In the first half of 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 (%)
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)

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 (%)
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**

(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**

1 Source of date: China Electricity Council

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	

(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 238 hours higher than the average utilization hours of 2,126 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.

1 Source of date: China Electricity Council

Power type	Average utilization hours *Hour* **In the first half of 2018**	In the first half of 2017	Change %	Power consumption ratio of power plant *%* **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).

(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%.

(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: In the first half of 2018	In the first half of 2017	Change	Main reasons for changes
		As at 30 June 2018					%	
1	Shendong Coal Co., Ltd.	**4,989**	**47,182**	**32,209**	**8,291**	8,064	2.8	
2	Shuohuang Railway Development Co., Ltd	**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

V. 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 millon tonnes.

On 30 June 2018, coal inventory of the six major power generation corporations amounted to 14.81 millon 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 millon 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 2,184 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.

VI. SIGNIFICANT EVENTS

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the Company's securities (as provided under the Hong Kong Listing Rules).

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, the Company has adopted the corporate governance polices as set out in Appendix 14 of the Hong Kong Listing Rules, the Company and all directors have been in full compliance with all the principles and code provisions and most of the recommended best practices as specified therein.

SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

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

The Company has made specific enquiries, and all directors and supervisors have confirmed that they had fully complied with the Model Code for the six months ended 30 June 2018.

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

Other than their own service contracts, none of directors or supervisors had any actual personal interest, directly or indirectly, in any material contracts made by the Company or any of its subsidiaries in the first half of 2018.

AUDIT COMMITTEE

The Company has appointed independent non-executive directors and established an Audit Committee in accordance with the Hong Kong Listing Rules. As at the end of the reporting period, the Audit Committee 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.

VII. DEFINITIONS

Unless the context otherwise requires, the following terms used in this announcement 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)
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 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.
Shenwan Energy Company	Shenwan Energy Company Limited
Fujian Energy Company	Shenhua Fujian Energy Co., Ltd.
Shenhua Finance Company	Shenhua Finance Co., Ltd.
Zheneng Power	Zhejiang Guohua Zheneng Power Generation Co., Ltd.
Shenmu Power	CLP Guohua Shenmu Power Co., Ltd.
Jinjie Energy	Shaanxi Guohua Jinjie Energy Co., Ltd.
Jiujiang Power	Shenhua Guohua Jiujiang Power Co., Ltd.
Zhuhai Wind Energy	Zhuhai Guohua Huidafeng Wind Energy Development Co., Ltd.
Shouguang Power	Shenhua Guohua Shouguang Power Generation Company Limited
Fuping Thermal Power	Fuping Thermal Power Plant of Shenhua Shendong Power 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

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

Beijing, 24 August 2018

As at the date of this announcement, the Board comprises the following: Dr. Ling Wen, Dr. Li Dong, Mr. Gao Song and Mr. Mi Shuhua as executive directors, Mr. Zhao Jibin as non-executive director, and Dr. Tam Wai Chu, Maria, Dr. Jiang Bo, Ms. Zhong Yingjie, Christina, Dr. Peng Suping and Dr. Huang Ming as independent non-executive directors.