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

2017 Annual Report

Important Notice

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

II. This report was approved at the tenth meeting of the fourth session of the Board of the Company. Six out of seven eligible directors attended the meeting in person, while Lin Wen acted as the proxy of Han Jianguo attended the meeting and voted on behalf of him.

III. Deloitte Touche Tohmatsu has issued a standard unqualified independent auditor's report to the Company under the International Financial Report Standards for Certified Public Accountants, in connection with the Company's 2017 financial statements prepared under the Hong Kong Accounting Standards.

IV. Ling Wen, Chairman of the Company, Zhang Kehui, Chief Financial Officer, and Xu Shancheng, General Manager of the Finance Department of the Company, warrant the authenticity, accuracy and completeness of the financial statements contained in this report.

V. The Board proposed the payment of a final dividend in cash of RMB0.91 per share (inclusive of tax) or RMB18,100 million (inclusive of tax) for the year 2017 based on the total share capital of 19,889,620,455 shares of the Company as at 31 December 2017. The profit distribution proposal is pending the approval by shareholders at the general meeting.

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

VII. Is there any situation of non-operating appropriation of funds by controlling shareholder(s) and its subsidiaries?: No

VIII. Is there any situation of violation of decision-making procedures for external guarantee provision?: No

IX. Warning on Major Risks: Impacted by the supply and demand of coal and power generation and the adjustment to industrial policies, the Group is exposed to some uncertainties on achieving the business targets for 2018. In addition, investors please note that the Company has disclosed risks including market competition, industrial policies, increase in cost, environmental protection and safety production, etc. in the section headed "Directors' Report".

Cover photo: The landscape of the reclamation area of the waste dump outside Ha'erwusu Open-pit Mine of the Company

Contents

Section I Definitions

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

China Shenhua/the Company	China Shenhua Energy Company Limited
The Group	The Company and its subsidiaries
CHNENERGY/ 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)
CHNENERGY Group/ Shenhua Group	CHNENERGY and its subsidiaries (excluding the Group)
China Guodian	China Guodian Group Co., Ltd. (中國國電集團有限公司)
Guodian Group	China Guodian and its subsidiaries
GD Power	GD Power Development Co., Ltd.
Shendong Coal Corporation	Shenhua Shendong Coal Group Co., Ltd.
Shendong Power Company	Shenhua Shendong Power Co., Ltd.
Zhunge'er Energy Company	Shenhua Zhunge'er Energy Co., Ltd.
Shuohuang Railway Company	Shuohuang Railway Development Co., Ltd.
Railway Transportation Company	Shenhua Railway Transportation Co., Ltd.
Shenhua Trading Group	Shenhua Trading Group Limited
Huanghua Harbour Administration Company	Shenhua Huanghua Harbour Administration Co., Ltd.
Baotou Energy Company	Shenhua Baotou Energy Co., Ltd.
Baotou Coal Chemical Company	Shenhua Baotou Coal Chemical Co., Ltd.
Shenbao Energy Company	Shenhua Baorixile Energy Co., Ltd.
Shenhua Zhuhai Coal Dock	Shenhua Yudean Zhuhai Port Coal Dock Co., Ltd.
Overseas Company	China Shenhua Overseas Development & Investment Co., Ltd.
Yu Shen Energy Company	Yulin Shenhua Energy Co., Ltd.
Xinjie Energy Company	Shenhua Xinjie Energy Co., Ltd.

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

Ningdong Power	Ningxia Guohua Ningdong Power Generation Co., Ltd.
Xuzhou Power	Guohua Xuzhou Power Generation Company Limited
Zhoushan Power	Shenhua Guohua (Zhoushan) Power Generation Co., Ltd.
Beijing Gas-fired Power	Shenhua Guohua (Beijing) Gas-fired Power Co., Ltd.
Shouguang Power	Shenhua Guohua Shouguang Power Generation Company Limited
Liuzhou Power	Shenhua Guohua Guangtou (Liuzhou) Power Generation Co., Ltd.
Guohua Ningdong	Shenhua Ningxia Guohua Ningdong Power Generation Co., Ltd.
Wanzhou Port and Power	Shenhua Shendong Power Chongqing Wanzhou Port and Power Co., Ltd.
Jawa Company	Shenhua Guohua (Indonesia) Jawa Power Generation Co., Ltd.
Shenhua Finance Lease Company	Shenhua (Tianjin) Finance Lease 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 Hong Kong Stock Exchange
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 year + Net financial costs +Income tax + Depreciation and amortization —Share of results of associates

Gearing ratio	Total liabilities/Total assets
Total debt to total debt and total equity ratio	[Long term interest bearing debt + Short term interest bearing debt (including Notes payable)]/[Long term interest bearing debt + Short term interest bearing debt (including Notes payable) + Total equity]
Shanghai-Hong Kong Stock Connect	A mutual access and connect mechanism for transactions in stock markets between Shanghai Stock Exchange and Hong Kong Stock Exchange
Shenzhen-Hong Kong Stock Connect	A mutual access and connect mechanism for transactions in stock markets between Shenzhen Stock Exchange and Hong Kong Stock Exchange, through which investors from Shenzhen market may trade the H shares of the Company
RMB	Renminbi unless otherwise specified

Section II Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

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

II. CONTACTS AND CONTACT DETAILS

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

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

III. PARTICULARS

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

IV. INFORMATION DISCLOSURE AND PLACE FOR DOCUMENT INSPECTION

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

V. BASIC INFORMATION ON SHARES

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

VI. OTHER RELEVANT INFORMATION

Auditor engaged by the Company (the PRC)	Name	Deloitte Touche Tohmatsu Certified Public Accountants LLP
	Office Address	8th Floor, Tower W2, The Towers, Oriental Plaza, 1 East Chang An Avenue, Beijing
	Signing Auditors	Xu Bin, Yu Chunhui
Auditor engaged by the Company (Hong Kong)	Name	Deloitte Touche Tohmatsu
	Office Address	35th Floor, One Pacific Place, 88 Queensway, Hong Kong
	Signing Auditors	Wong Tin Chak, Samuel

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

VII. MAJOR ACCOUNTING DATA

	Unit	2017	2016	Change (%)
Revenue	RMB million	**248,746**	183,127	35.8
Profit for the year	RMB million	**57,138**	31,970	78.7
Profit for the year attributable to equity holders of the Company	RMB million	**47,795**	24,910	91.9
Basic earnings per share	RMB/share	**2.403**	1.252	91.9
Net cash generated from operating activities	RMB million	**95,152**	81,883	16.2
Net cash generated from operating activities excluding the effect from Shenhua Finance Company	RMB million	**87,931**	92,564	(5.0)

	Unit	As at 31 December 2017	As at 31 December 2016	Change (%)
Total assets	RMB million	**571,602**	576,729	(0.9)
Total liabilities	RMB million	**192,497**	191,760	0.4
Total equity	RMB million	**379,105**	384,969	(1.5)
Equity attributable to equity holders of the Company	RMB million	**305,541**	316,975	(3.6)
Total share capital at the end of the period	RMB million	**19,890**	19,890	0.0

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

Unit: RMB million

	Net profit attributable to equity holders of the Company		Net assets attributable to equity holders of the Company	
	2017	2016	**At the end of 2017**	At the end of 2016
Under China Accounting Standards for Business Enterprises	**45,037**	22,712	**301,487**	312,357
Adjustments for:				
Simple production maintenance, safety production and other related expenditure	**2,758**	2,198	**4,054**	4,618
Under International Financial Reporting Standards	**47,795**	24,910	**305,541**	316,975

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

IX. MAJOR FINANCIAL DATA OF EACH QUARTER OF 2017

Unit: RMB million

	First quarter (January – March)	**Second quarter (April – June)**	**Third quarter (July – September)**	**Forth quarter (October – December)**
Revenue	61,062	59,456	62,017	66,211
Profit for the period attributable to equity holders of the Company	12,937	13,361	12,312	9,185
Net cash generated from operating activities	24,983	22,654	36,177	11,338

Explanation on the differences between quarterly data and disclosed regular reporting data:

☐ Applicable ✔ Not Applicable

Section III Business Overview

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

China Shenhua Energy Company Limited was established in Beijing in November 2004, and was listed on the Hong Kong Stock Exchange in June 2005 and the Shanghai Stock Exchange in October 2007. The Group is principally engaged in the production and sale of coal and electricity, railway, port and shipping transportation, and coal-to-olefins businesses.

In terms of sales, the Group is the largest listed coal company in China and globally with the sales volume of coal reaching 443.8 million tonnes and commercial coal production volume reaching 295.4 million tonnes in 2017. The Company possesses high quality coal resources in Shendong Mines, Zhunge'er Mines, Shengli Mines and Baorixile Mines, etc. On 31 December 2017, the Company had coal retained resources of 23.70 billion tonnes and recoverable coal reserves of 15.19 billion tonnes under the PRC Standard; the marketable coal reserve of 8.55 billion tonnes under the JORC Standard. The Group controls and operates large-scale and high capacity clean coal-fired power generators, the Group controls and operates power generators with installed capacity of 57,855MW by the end of 2017, with a total power output dispatch reaching 246.25 billion kWh in 2017. The Group controls and operates a network of concentric transportation railways around the major coal production bases in western Shanxi, northern Shaanxi and southern Inner Mongolia as well as "Shenshuo – Shuohuang Line", a major channel for coal transportation from western to eastern China, and it has controlled and operated railways with a total length of approximately 2,155 km. The transportation turnover of self-owned railway in 2017 reached 273.0 billion tonnes km. The Group also controls and operates a number of ports and docks, such as Huanghua Port (approximately 270 million tonnes/year vessel loading capability in aggregate), possesses the shipping transportation team comprising its own vessels with approximately 2.2 million tonnes of loading capacity and conducts coal-to-olefins businesses with approximately 0.6 million tonnes/year of operation and production capacity. The Company's technology in coal exploitation and production safety has secured a leading position in the global market, and that of clean coal-fired power generation and heavy-loaded railway transportation has secured a leading position in domestic market. The Company owns or operates coal-fired power plants, coal mines and other projects in Indonesia, Australia and other countries.

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

For industry conditions in which the Company operates, please refer to the section "Directors' Report" in the report.

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

In 2017, there was no material change in the major assets of the Group

As of 31 December 2017, the Group's total assets amounted to RMB571,602 million, representing a decrease of 0.9% as compared with that at the end of last year, and the equity attributable to equity holders of the Company amounted to RMB305,541 million, representing a decrease of 3.6% as compared with that at the end of last year. The total offshore assets of the Group (including Hong Kong, Macau and Taiwan) amounted to RMB24,888 million, representing 4.4% to total assets, which are mainly composed of the assets from USD bonds issued in Hong Kong, PRC, and coal mine and power generation assets in Australia and Indonesia.

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The core competitiveness of the Group are mainly:

(I). Unique operation and profitability model: The Group adopts a vertically integrated business model and makes use of its own transportation and sales network, which is conducive to achieving operating profits at every stage of coal-based industrial chain, hence contributing to lowering operation costs and enhancing competitiveness.

In 2017, by actively implementing national adjustment and control policy on the industry and fully developing its advantages of unified operation, the Company increased continuously in market share, obtained apparent synergy effects in business and strengthened overall competitiveness continuously, resulting in a significant increase in operating results.

(II). Coal reserve: The Group possesses an abundant pool of high-quality coal resources which are suitable for modern high-quality and high-efficient mining. As of the end of 2017, among the coal mining rights possessed and controlled by the Group, the retained coal resources are 23.70 billion tonnes and the recoverable coal reserves are 15.19 billion tonnes under the PRC Standard; the marketable coal reserves are 8.55 billion tonnes under the JORC Standard. The coal reserves of the Group is among the top of listed coal companies in China.

(III). Management team focusing on principal business and advanced business concepts: The management team of China Shenhua has profound knowledge and management experience in the industry, attaches great importance to enhancement of the Company's capabilities in value creation, conducts operation with a focus on the principal businesses of the Company, and persistently focuses on clean generation and utilisation in energy sector.

In 2017, the Company persistently promoted the implementation of the development strategies of clean energy.

(IV). Industrial technology and innovation capabilities: China Shenhua strengthens its industrial technology and innovation capabilities continuously. The Company's technology in coal exploitation and production safety has secured a leading position in the global market, and that of clean coal-fired power generation and heavy-loaded railway transportation has secured a leading position in domestic market, basically establishing a unified operation model of technology and resources and a technological innovation-driven development model comprising scientific decision-making, systematic management, research and development, and transformation of achievements.

In 2017, the Company focused on promoting the ultra-low emission transformation, digital mining construction and other industrial technologies. During the reporting period, the Group was granted 543 new patents, in which 126 patents were invention patents.

Section IV Chairman's Statement

Ling Wen

Chairman

Dear Shareholders,

On behalf of the Board, I am delighted to present the 2017 annual report of China Shenhua and to report on the Company's performance for the period to all shareholders.

2017 was a critical year for the implementation of the "Thirteenth Five-Year" Plan. Led by The Thought on Socialism with Chinese Characteristics for a New Era proposed by Xi Jinping and followed by supply-side structural reform as the main theme, Chinese government pushed forward measures on structure optimisation and quality enhancement, hence leading to a stable and favorable national economy, which was better than expectations. A tight supply-demand balance was seen in the national coal market and there was a fluctuation in coal price at high level due to the relationship between demand and supply as well as seasonality. The power consumption of the whole society grew at a faster pace as compared with the previous year and thermal power generation achieved a significant recovery year-on-year.

China Shenhua adhered to clean development, strengthened operation management, expanded market, enhanced quality and improved efficiency, thereby giving full play to its advantage of integration, achieving substantial increase in profit for coal and transportation businesses and creating outstanding operating performance. As calculated by the consolidated operating profits before amortisation under the International Financial Reporting Standards, the Company recorded RMB46.05 billion for coal business, RMB20.87 billion for transportation business and RMB7.4 billion for power business in 2017 and each of the said businesses accounted for 61%, 28% and 10%, 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.

In 2017, the Company recorded revenue of RMB248.75 billion, representing a year-on-year increase of 35.8%. The Company recorded profit before tax of RMB73.29 billion, profit for the year attributable to equity holders of the Company of RMB47.80 billion and basic earnings per share of RMB2.40, representing a year-on-year increase of 77.7%, 91.9% and 91.9%, respectively. The Company promptly responded to requests from shareholders, made substantial payment of cash dividends and shared its achievements with investors, which helped establish itself a sound image in capital markets.

As at 31 December 2017, the total market capitalisation of China Shenhua reached USD67.5 billion, ranking the first among all listed coal companies worldwide and the fourth among all listed integrated mining companies globally. Moody's and Fitch, international credit rating agencies, maintained the sovereign rating of the international credit rating of China Shenhua.

2017: STRENGTHENED OPERATION UNITS, MARKET EXPANSION AS WELL AS QUALITY ENHANCEMENT AND EFFICIENCY IMPROVEMENT, ACHIEVED OUTSTANDING PERFORMANCE

High Efficiency and Synergy, Made Further Success

The Company continued to strengthen operation units in order to achieve high efficiency and synergy among all sessions of production, transportation and marketing, which allowed various indicators to record historical highs.

Coal segment: In response to the upward trend recorded in the market demand for downstream coal in 2017, the Company organised lawful production, accelerated the release of production capacity of safe mines with advanced technology. The production of commodity coal during the year amounted to 295.4 million tonnes, representing a year-on-year increase of 1.9%, among which, the production of Shendong Mines recorded a year-on-year increase of 5.6%, and the production of the newly-constructed Guojiawan and Qinglongsi coal mines amounted to 7.0 million tonnes.

The Company adjusted marketing strategies flexibly, strengthened the strategic cooperation with key customers, actively explored in new regional markets and thus maintaining our market share. In addition, setting maximizing the sales volume of seaborne coal at self-owned ports as the goal, the Company put great efforts in facilitating business models like "transit bases" and "quasi-liner shipping" to increase its earnings; strengthened the organisation of coal procured externally to boost the improvement of efficiency and profits of the coal and transportation segment. In 2017, the sales volume of coal amounted to 443.8 million tonnes, representing a year-on-year increase of 12.4%, of which the sales volume of seaborne coal amounted to 258.2 million tonnes, representing a year-on-year increase of 14.0%, creating historical highs.

Power segment: Seizing the opportunities arising from the great demand of national electricity consumption and the favourable condition of thermal power generation, the Company continued to enhance the reliability of generating units to increase the volume of power generation. In 2017, the gross power generation reached 262.9 billion kWh and the total power output dispatch reached 246.3 billion kWh, representing a year-on-year increase of 11.4% and 11.6%, respectively.

Power segment further perfected the assessment system of electricity marketing, co-ordinated the balance between volume and price of electricity as well as the risk and return, actively expanded internal and external markets for direct power supply to large power users to capture and secure power demand of the market. In 2017, the average utilisation hours of coal-fired generating units were 4,683 hours, surpassing the national average utilisation hours of coal-fired power generators[1] by 405 hours; the transacted marketized power was 69.1 billion kWh, representing a year-on-year increase of 52.3%.

1 The national average utilisation hours of coal-fired power generators in 2017 were 4,278 hours.

Transportation segment: The Company made scientific arrangements of transportation resources, strengthened the connection and management between the upstream and the downstream to effectively improve transportation efficiency. It also increased the routes of 10,000-tonne trains and new locomotive and proactively coordinated the source and flow of cargo, which continuously enhanced the transportation capacity and effectively ensured integrated operation at high level. In 2017, the Company completed 273.0 billion tonne km of turnover volume of self-owned railway representing a year-on-year increase of 11.6%, which recorded historical high; and 80.4 billion tonne nm of shipping volume, representing a year-on-year increase of 27.6%.

Transportation segment endeavored to expand markets and achieved desirable progress on "macroscopic logistics". In 2017, the transportation volume of non-coal railway amounted to 26.1 million tonnes, representing a year-on-year growth of 34.3%. The turnover of railway transportation services provided to external customers amounted to 29.4 billion tonnes km, representing a year-on-year growth of 34.9%, which generated revenue of RMB5,615 million, representing a year-on-year increase of 34.5%.

Coal chemical segment: The Company continued to optimise production plans and improve production efficiency, the main device achieved "safe, stable and optimum operation at full capacity with long run-length", and expanded sales channels to enhance earnings. The sales volume of coal-to-olefins products reached 633.4 thousand tonnes in 2017, representing a year-on-year increase of 10.2%.

Innovation-driven, Clean Development

The Company continued to promote the renovation of "ultra-low emission" of coal-fired generating units, completed "ultra-low emission" renovation of 8,880MW generating units in 2017, achieved 46,150MW in aggregate, accounting for 82.4% of the total installed capacity of all coal-fired power generating units of the Company, which allowed all coal-fired generating units in Central China and Eastern China to achieve "ultra-low emission". The emission intensity (g/kWh) for soot, sulphur dioxide and nitrogen oxides of coal-fired power generators in 2017 reduced by 29.5%, 16.7% and 6.3%, respectively as compared with the same period of previous year, maintaining leading standards domestically. As at the end of the year, 67 "ultra-low emission" coal-fired generating units were supported by policies including tariff subsidies, which increased the profitability of the power business.

The Company strengthened the informatization construction of coal mines by continuously expanding the construction of digital intelligent mines on the basis of the realization of the operation of unmanned working face in Jinjie Coal Mine. The Shendong Mining Area achieved centralized control of "four mines and five shafts" to further optimize the organization for coal production and make personnel highly capable and improve the efficiency. The Company exerted great efforts to promote the improvement of coal production technology and technological innovation and the world's first set of surface with high roof support with a height of 8 meters was put into operation.

In 2017, the Company obtained 543 patents, 126 of which were invention patents.

Streamlined Management, Improved Quality and Enhanced Efficiency

The Company further perfected the establishment of cost management and control as well as information system, optimised production structure, strictly executed rolling budget management and monthly cost assessment, and conducted in-depth internal and external benchmarking for each of its business segments so as to reduce production cost. The Company also strengthened the integration of internal resources, continued to promote the innovation and optimisation of the reform on materials management, launched reengineering for centralised procurement process, carried out all operations of mutual storage for coal and power segments, stringently controlled inventory increase and minimise non-production expenses so as to reduce cost and enhance efficiency. The unit production cost of self-produced coal during the year achieved a year-on-year decrease of 1.6%, better than the goal of management and control at the beginning of the year.

Exercised Responsibility, Put Safety and Environmental Protection in the First Place

The Company continuously improved emergency management plans and procedures together with intensifying the safety management and control as well as potential risk identification, making great achievements in risk prevention and control system as well as standardization construction of production safety, thus fortifying a defense line of production safety. In 2017, the fatality rate per million tonne of coal output was 0.003, maintaining its leading position worldwide in production safety.

Guided by higher standards, higher investment and more stringent requirements, the Company pushed forward basic management of energy saving and environmental protection and governance of significant environmental risks in a systematic manner and carried out mining ecological construction, yielding fruitful results in energy conservation and environmental protection. The Company carried out groundwork for carbon management in a systematic manner, achieving stage progress in fostering carbon management capability. In 2017, the Company invested RMB1.55 billion in energy saving and environmental protection. "Zhunge'er Mine Park" obtained the eligibility to become a National Mining Park and Daliuta Coal Mine was awarded as National Demonstration Zone for Soil and Water Conservation Technology.

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 offered support to Tibet, Qinghai and Xinjiang as well as carried out targeted poverty alleviation. In 2017, the Company offered approximately RMB135 million funds for targeted poverty alleviation, which were mainly utilised in education poverty alleviation, health care poverty alleviation, industry poverty alleviation and infrastructure construction. The Company achieved remarkable results in various work and was widely recognised by the society.

For more details about performance of social responsibility, please refer to the 2017 CSR Report of the Group.

Enhanced Strength Through Party Building, Blaze a Way Through All Obstacles

In accordance with the requirements of the Central Committee of the CPC on strengthening the CPC leadership of state-owned enterprises and the modern enterprise system, the Company carried out its Grass-Roots Party building work seriously, implemented the incorporation of Party building matters into the Articles of Association orderly, strengthened arrangements for all Party cadres to study and implement with the key concepts of the 19th CPC National Congress and The Thought on Socialism with Chinese Characteristics for a New Era proposed by Xi Jinping for purpose of guiding our practice and facilitating our work to promote the management improvement of the Company. The Party Branch of the Mining Team No.1 in Daliuta Mine Coal of Shendong Coal Corporation was honored by the SASAC Party Committee as "The First Batch of Grass-Roots Model Party Branch of Central Enterprises". The "Internet Plus Party Building" initiated by Shendong Coal Corporation as an innovative platform for intraparty political life was awarded as National Excellent and Innovative Model for Grass-Roots Party Building.

2018: OPTIMISING THE ORGANISATION OF PRODUCTION, TRANSPORTATION AND MARKETING, IMPROVING OPERATING QUALITY, BUILDING ITSELF INTO THE WORLD'S FIRST CLASS COMPREHENSIVE ENERGY COMPANY

In 2018, Chinese Government will remain committed to the general principle of pursuing progress while keeping performance stable and to the new development philosophy, follow the requirement of high quality development, continue to regard supply-side structural reform as the main task, coordinate the efforts to maintain stable growth, make structural adjustments, improve living standards, and guard against risks, so as to promote sustained and healthy economic and social development. The sustained overall steady and positive growth of economy will create a favorable environment for stable coal demand, and the national power demand will maintain an upward trend.

The Company sets business targets for the whole year based on the prudent analysis of market environment and operation conditions as follow: commercial coal production will be 290 million tonnes, the coal sales will be 430 million tonnes, the power output dispatch will be 248.6 billion kWh, the revenue will be RMB249.3 billion and the cost of sales will be RMB168.4 billion, selling, general and administrative expenses and net finance costs will be RMB13.8 billion.

China Shenhua will optimise the organisation of production, transportation and marketing, improve operating and developing quality and strive to build itself into the world's first class energy company with global competitiveness. Priorities will include the following:

Optimise the organisation of production, transportation and marketing as well as enhance synergy ability. Firstly, the Company will optimize organization of production to make new coal mines put into production and reach full production faster. It will actively make efforts to accelerate the stripping works of Baorixile Mine and Ha'erwusu Open-pit Mine and bring the mine back to production with a stable output. The Company will closely grasp the sales of seaborne coal with best profitability and increase sales volume of high-quality coal and high value-added special coal to increase market share and guarantee sales earnings. The Company will do well in contract coal fulfilment and proactively explore three-year long-term collaboration contract mechanism, so that to ensure the coal segment generate stable earnings. In addition, it will make a good organization of outsourcing coal to increase the efficiency and profits of the Company. Secondly, the Company will strengthen standardization and delicacy management on power plants to improve the productivity. It will deepen the study on reform of electric power system, intensify marketing and vigorously exploit the heat supply market to strive for more direct power supply and market trading power and secure an industry leading position in terms of utilization hours of power generations. Thirdly, the Company will continue to optimize the management on transportation turnover to put forth efforts to ensure the operation density of ten-thousand-tonne train and will optimize the operation mechanism of cycling trains and "quasi-liner shipping" to improve rail capacity and port handling capacity effectively. The Company continues to promote the "macroscopic logistics" business, improve the construction of logistic business information platform, further increase the coal transportation volume of third parties, enhance market development of reverse transportation and transportation of non-coal materials, thus boosting revenues contributed by the transportation business.

Strictly check project investments, realize high quality development. With regard to investment projects, the Company will execute strict and refined management, perfect the project evaluation, assessment and decision making mechanism, strengthen follow-up evaluation of economic benefits and investigation responsibility for significant investment projects, and improve risk control on investment projects, trying to achieving the goal that the investment projects will realize safe and stable operation, meet emission standards and generate expected revenues once they are put into production. The Company will steadily develop investment and construction of projects with favorable investment profits forecast based on the investment and income analysis with full life circle. The Company will actively promote project construction including Huangda Railway and Lujiang Power Plant; push forward the Jawa-7 Coal-fired Power (2×1,050MW) in Indonesia with high standards, and seize the construction opportunity of the Belt and Road Initiative so as to advance its internationalisation.

Strengthen cost control, improve operational efficiency. Firstly, the Company will perfect the responsibility assessment mechanism of cost reduction, grant more incentives in income distribution, consolidate cost benchmarking and business synergy, control the growth of the unit production cost of self-produced coal and reduce the controllable costs of power generation and transportation business. Secondly, the Company will make the greatest use of existing resources, reinforce the synergy of resources including technology, talents, capital, materials and equipment among business segments, revitalize assets further and improve profitability of assets.

Reinforce safety, environmental protection and innovation, consolidate operation foundation. The Company will optimize the intrinsic safety system on an ongoing basis and strengthen risk prevention and control of safety production as well as assessment of safety and responsibility, deepen the implementation of potential risk identification and focus on management of key areas, critical processes and weak sections so as to maintain a world-leading level in safety production.

In order to prevent any environmental incidents, the Company will pick up pace in establishment of standardized management system for energy saving and environmental protection, further implement environmental protection responsibilities strictly, and improve environmental protection work of each business segment. Regarding the "ultra-low emission" renovation of coal-fired generating units, the Company plans to complete the renovation on ten generating units with approximately 2,600MW in total in 2018. It will advance the construction of management system for carbon emission reduction, consolidate talent reserve, improve carbon asset management and strive for being the industry benchmark.

The Company will cultivate the systems and mechanisms suitable to the development of the Company and improve its innovation capability; continue to invest more in scientific research, focus on development of key projects, facilitate research development and promotion of the technology for safe, green and intelligent development of coal resources; make greater efforts in recruitment and nurturing of technological talents and set up high-level decision-making advisory body for technology innovation and a team of energy technology professionals; promote the construction of "Internet Plus" sales, "Internet Plus" logistics and other platforms to build a smart enterprise and strengthen the driving force of development.

Promote reform steadily, gain stronger drivers for development. The Company will carry out significant assets transactions in an active and prudent way, push forward the establishment of joint ventures and guarantee compliance operations, further optimize the Company's business model, develop its integrated advantages, enhance synergic operation quality between upstream and downstream segments (including coal, electric power, transportation and coal-to-chemical segments) to strengthen the drivers for development of the Company to ensure the maximization of all shareholders' interests.

In 2018, China Shenhua will remain true to our original aspiration and keep our mission firmly in mind, pursue progress, work hard, promote a safe, efficient and sustainable development in all business of the Company and create greater value to investors.

Ling Wen
Chairman

23 March 2018

Section V Directors' Report

Overview of China Shenhua's Operating Results for the Year of 2017

Table 1 Business Targets for 2018

		Target for 2018[Note]	Actual amount in 2017	Change %
Commercial coal production	100 million tonnes	2.9	2.954	(1.8)
Coal sales	100 million tonnes	4.3	4.438	(3.1)
Power output dispatch	100 million kWh	2,486	2,462.5	1.0
Revenue	RMB100 million	2,493	2,487.46	0.2
Cost of sales	RMB100 million	1,684	1,604.60	4.9
Selling, general and administrative expenses and net finance costs	RMB100 million	138	132.79	3.9
Change in unit production costs of self-produced coal	/	year-on-year increase of no more than 5%	year-on-year decrease of 1.6%	/

Note: The business target of 2018 is based on the assets and business scope of the Group as at the end of 2017.

Table 2 Financial Indicators

		2017	2016	Change%
Revenue	RMB million	248,746	183,127	35.8
Profit for the year	RMB million	57,138	31,970	78.7
EBITDA	RMB million	101,310	70,762	43.2
Profit for the year attributable to equity holders of the Company	RMB million	47,795	24,910	91.9
Basic earnings per share	RMB/share	2.403	1.252	91.9
Net cash generated from operating activities	RMB million	95,152	81,883	16.2
Net cash generated from operating activities excluding Shenhua Finance Company	RMB million	87,931	92,564	(5.0)

Table 3 Results of Each Segment

	Coal 2017 RMB million	Coal 2016 RMB million	Power 2017 RMB million	Power 2016 RMB million	Railway 2017 RMB million	Railway 2016 RMB million	Port 2017 RMB million	Port 2016 RMB million
Revenue from external customers	155,370	102,283	79,246	69,613	5,615	4,174	788	575
Inter-segment revenue	40,548	29,074	265	237	31,971	29,356	4,929	4,465
Sub-total of segment revenue	195,918	131,357	79,511	69,850	37,586	33,530	5,717	5,040
Segment cost of sales	(143,461)	(109,404)	(68,388)	(53,939)	(18,632)	(17,350)	(2,880)	(2,523)
Segment profit/(loss) from operations	46,051	17,017	7,399	11,689	17,675	15,000	2,529	2,302
	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million
Segment total assets	225,672	198,140	215,910	207,879	129,829	125,152	24,211	22,489
Segment total liabilities	(114,713)	(116,711)	(152,157)	(134,519)	(65,772)	(65,396)	(10,607)	(10,135)

	Shipping 2017 RMB million	Shipping 2016 RMB million	Coal chemical 2017 RMB million	Coal chemical 2016 RMB million	Unallocated items 2017 RMB million	Unallocated items 2016 RMB million	Eliminations 2017 RMB million	Eliminations 2016 RMB million	Total 2017 RMB million	Total 2016 RMB million
Revenue from external customers	698	380	5,681	4,831	1,348	1,271	–	–	248,746	183,127
Inter-segment revenue	2,549	1,732	–	–	1,040	966	(81,302)	(65,830)	–	–
Sub-total of segment revenue	3,247	2,112	5,681	4,831	2,388	2,237	(81,302)	(65,830)	248,746	183,127
Segment cost of sales	(2,472)	(1,707)	(4,968)	(4,330)	(49)	(67)	80,390	64,477	(160,460)	(124,843)
Segment profit/(loss) from operations	661	266	560	254	1,536	1,261	(912)	(1,345)	75,499	46,444
	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million	As at 31 December 2017 RMB million	As at 31 December 2016 RMB million
Segment total assets	7,865	8,038	10,982	11,621	381,056	377,853	(423,923)	(374,443)	571,602	576,729
Segment total liabilities	(1,527)	(2,063)	(3,619)	(4,686)	(169,782)	(137,179)	325,680	278,929	(192,497)	(191,760)

Table 4 Operation Data

		2017	2016	Change %
Commercial coal production	million tonnes	295.4	289.8	1.9
Coal sales	million tonnes	443.8	394.9	12.4
Including: Self-produced coal	million tonnes	301.0	285.5	5.4
Purchased coal	million tonnes	142.8	109.4	30.5
Gross power generation	billion kWh	262.87	236.04	11.4
Total power output dispatch	billion kWh	246.25	220.57	11.6
Polyethylene sales	thousand tonnes	324.6	292.6	10.9
Polypropylene sales	thousand tonnes	308.8	282.1	9.5
Transportation turnover of self-owned railway	billion tonne km	273.0	244.6	11.6
Seaborne coal sales	million tonnes	258.2	226.4	14.0
Shipping volume	million tonnes	93.0	79.2	17.4
Shipment turnover	billion tonne nm	80.4	63.0	27.6

Table 5 Commercial Coal Production Volume

	2017 million tonnes	2016 million tonnes	Change %
Total production	295.4	289.8	1.9
By mines			
Shendong Mines	193.3	183.0	5.6
Zhunge'er Mines	55.4	62.9	(11.9)
Shengli Mines	19.2	16.0	20.0
Baorixile Mines	25.3	25.0	1.2
Baotou Mines	0.4	1.1	(63.6)
Others	1.8	1.8	–
By regions			
Inner Mongolia	190.6	191.1	(0.3)
Shaanxi	98.6	92.7	6.4
Shanxi	4.4	4.2	4.8
Overseas	1.8	1.8	–

Table 6 Power Business

Power plants	Power grid	Location	Gross power generation 100 million kWh	Total power output dispatch 100 million kWh	Average utilisation hours hours	Standard coal consumption for power output dispatch g/kWh	Power tariff RMB/mWh	Total installed capacity as at 31 December 2016 MW	Increase in installed capacity for 2017 MW	Total installed capacity as at 31 December 2017 MW	Equity installed capacity as at 31 December 2017 MW
Zhunge'er Power	North China Power Grid	Inner Mongolia	33.7	29.6	3,515	383	204	960	–	960	554
Guohua Zhunge'er	North China Power Grid	Inner Mongolia	56.1	50.5	4,249	311	215	1,320	–	1,320	639
Guohua Hulunbei'er Power	Northeast Power Grid	Inner Mongolia	49.3	44.5	4,109	322	234	1,200	–	1,200	960
Shendong Power	Northwest/North China/ Shaanxi Provincial Local Power Grid	Inner Mongolia	309.6	285.0	3,760	340	247	8,184	100	8,284	7,634
Cangdong Power	North China Power Grid	Hebei	140.2	133.6	5,564	301	304	2,520	–	2,520	1,285
Sanhe Power	North China Power Grid	Hebei	65.6	60.9	5,013	293	328	1,300	30	1,330	512
Dingzhou Power	North China Power Grid	Hebei	142.5	132.1	5,655	311	306	2,520	–	2,520	1,021
Taishan Power	South China Power Grid	Guangdong	198.8	186.6	3,955	310	361	5,000	30	5,030	4,024
Huizhou Thermal	South China Power Grid	Guangdong	38.9	35.3	5,897	327	372	660	–	660	660
Zheneng Power	East China Power Grid	Zhejiang	217.6	206.3	4,859	300	351	4,400	90	4,490	2,694
Zhoushan Power	East China Power Grid	Zhejiang	46.2	43.0	5,071	339	359	910	–	910	464
Shenwan Energy	East China Power Grid	Anhui	227.9	217.8	4,954	298	305	4,600	–	4,600	2,346
Taicang Power	East China Power Grid	Jiangsu	68.3	65.4	5,422	295	315	1,260	–	1,260	630
Chenjiagang Power	East China Power Grid	Jiangsu	69.5	66.4	5,267	285	318	1,320	–	1,320	726
Xuzhou Power	East China Power Grid	Jiangsu	103.9	98.7	5,192	288	323	2,000	–	2,000	2,000
Suizhong Power	Northeast Power Grid	Liaoning	181.3	170.3	4,821	310	299	3,760	–	3,760	1,880
Fujian Energy	East China Power Grid	Fujian	134.0	128.0	4,963	301	328	2,700	–	2,700	1,324
Jinjie Energy	North China Power Grid	Shaanxi	152.4	140.1	6,351	324	254	2,400	–	2,400	1,680
Shenmu Power	Northwest Power Grid	Shaanxi	8.8	7.7	3,983	381	295	220	–	220	112
Shouguang Power	North China Power Grid	Shandong	107.8	102.6	5,392	281	318	2,000	–	2,000	1,200
Ningdong Power	Northwest Power Grid	Ningxia	33.0	29.2	5,005	357	228	660	–	660	660
Guohua Ningdong	Zhejiang Power Grid	Ningxia	13.7	12.9	4,966	310	222	–	1,320	1,320	749
Shenhua Sichuan Energy (coal-fired power)	Sichuan Power Grid	Sichuan	24.2	21.8	1,919	332	390	1,260	–	1,260	604
Mengjin Power	Central China Power Grid	Henan	59.4	56.2	4,953	306	305	1,200	–	1,200	612
Panshan Power	North China Power Grid	Tianjin	51.5	48.1	4,854	312	360	1,060	–	1,060	482
Liuzhou Power	Guangxi Power Grid	Guangxi	18.6	17.5	2,655	323	345	700	–	700	364
EMM Indonesia	PLN	Indonesia	15.8	13.8	5,275	366	477	300	–	300	210
Total of coal-fired power plants/weighted average			2,568.6	2,403.9	4,683	311	306	54,414	1,570	55,984	36,026
Other power plants											
Beijing Gas-fired Power	North China Power Grid	Beijing	35.8	34.8	3,768	204	563	950	–	950	950
Yuyao Power	East China Power Grid	Zhejiang	17.1	16.7	2,195	233	587	780	–	780	624
Shenhua Sichuan Energy (hydropower)	Sichuan Provincial Local Power Grid	Sichuan	7.0	6.9	5,618	–	214	125	–	125	48
Zhuhai Wind Energy	South China Power Grid	Guangdong	0.2	0.2	1,160	–	599	16	–	16	12

Table 7 Cost of Sales of Coal Segment

	2017 Cost RMB million	2017 Volume million tonnes	2017 Unit cost RMB/tonne	2016 Cost RMB million	2016 Volume million tonnes	2016 Unit cost RMB/tonne	Change in unit cost %
Cost of coal purchased	49,950	142.8	349.8	26,286	109.4	240.3	45.6
Production cost of self-produced coal	32,490	301.0	107.9	31,297	285.5	109.6	(1.6)
Materials, fuel and power	5,380	301.0	17.9	5,220	285.5	18.3	(2.2)
Personnel expenses	5,673	301.0	18.8	5,030	285.5	17.6	6.8
Repairs and maintenance	2,668	301.0	8.9	2,474	285.5	8.7	2.3
Depreciation and amortization	5,863	301.0	19.5	6,260	285.5	21.9	(11.0)
Others	12,906	301.0	42.8	12,313	285.5	43.1	(0.7)
Cost of coal transportation	49,726			42,221			
Other operating costs	3,480			4,313			
Tax and surcharges	7,815			5,287			
Total cost of sales	143,461			109,404			

Table 8 Cost of Sales of Power Segment

	2017 Cost RMB million	2017 Power output dispatch 100 million kWh	2017 Unit cost RMB/mWh	2016 Cost RMB million	2016 Power output dispatch 100 million kWh	2016 Unit cost RMB/mWh	Change in unit cost %
Cost of power output dispatch	66,704	2,462.5	270.9	52,472	2,205.7	237.9	13.9
Materials, fuel and power	48,355	2,462.5	196.4	34,438	2,205.7	156.1	25.8
Personnel expenses	4,000	2,462.5	16.2	3,720	2,205.7	16.9	(4.1)
Repairs and maintenance	2,814	2,462.5	11.4	2,732	2,205.7	12.4	(8.1)
Depreciation and amortization	9,352	2,462.5	38.0	9,095	2,205.7	41.2	(7.8)
Others	2,183	2,462.5	8.9	2,487	2,205.7	11.3	(21.2)
Other operating costs	632			483			
Tax and surcharges	1,052			984			
Total cost of sales	68,388			53,939			

Table 9 Domestic Coal Sales Volume

		2017 million tonnes	Proportion of domestic sales %	2016 million tonnes	Change %
Domestic sales		436.4	100.0	386.2	13.0
By region	Northern China	170.5	39.0	185.6	(8.1)
	Eastern China	105.4	24.2	126.2	(16.5)
	Central China and Southern China	103.2	23.6	46.6	121.5
	Northeast China	40.0	9.2	24.9	60.6
	Others	17.3	4.0	2.9	496.6
By usage	Thermal coal	370.5	85.0	289.2	28.1
	Metallurgy	23.6	5.4	6.7	252.2
	Chemical (including coal slurry)	40.8	9.3	32.3	26.3
	Others	1.5	0.3	58.0	(97.4)

Table 10 Capital Expenditure Plan for 2018

	Plan for 2018 Total amount 100 million	Plan for 2018 Including: First batch 100 million	Completion in 2017 100 million
Coal segment		24.0	45.7
Power segment		101.3	152.3
Transportation segment		48.7	61.1
Including: Railway	290	44.8	53.8
Port		3.5	7.2
Shipping		0.4	0.1
Coal chemical business		2.2	1.1
Others		–	1.8
Total	290	176.2	262.0

Table 11 Cost of Sales of Transportation and Coal Chemical Segments

	Railway 2017 RMB million	Railway 2016 RMB million	Railway Change %	Port 2017 RMB million	Port 2016 RMB million	Port Change %	Shipping 2017 RMB million	Shipping 2016 RMB million	Shipping Change %	Coal Chemical 2017 RMB million	Coal Chemical 2016 RMB million	Coal Chemical Change %
Cost of internal transportation business	14,724	14,331	2.7	2,349	2,160	8.7	1,971	1,386	42.2	/	/	/
Materials, fuel and power	2,440	2,444	(0.2)	334	317	5.4	305	216	41.2	2,622	1,968	33.2
Personnel expenses	3,095	2,856	8.4	289	258	12.0	4	–	/	290	276	5.1
Repairs and maintenance	3,519	3,392	3.7	255	232	9.9	34	26	30.8	267	362	(26.2)
Depreciation and amortization	3,703	3,624	2.2	840	831	1.1	188	205	(8.3)	882	907	(2.8)
External transportation charges	715	701	2.0	/	/	/	1,217	701	73.6	/	/	/
Others	1,252	1,314	(4.7)	631	522	20.9	223	238	(6.3)	133	119	11.8
Cost of external transportation business	2,677	2,145	24.8	315	252	25.0	498	318	56.6	/	/	/
Sub-total cost of prime business	17,401	16,476	5.6	2,664	2,412	10.4	2,469	1,704	44.9	4,194	3,632	15.5
Other operating costs	802	497	61.4	106	72	47.2	/	/	/	592	533	11.1
Tax and surcharges	429	377	13.8	110	39	182.1	3	3	–	182	165	10.3
Total cost of sales	18,632	17,350	7.4	2,880	2,523	14.1	2,472	1,707	44.8	4,968	4,330	14.7

Table 12 Coal Sales Price

	2017 Sales volume million tonnes	2017 Percentage to total sales volume %	2017 Price RMB/tonne	2016 Sales volume million tonnes	2016 Percentage to total sales volume %	2016 Price RMB/tonne	Change Sales volume %	Change Price %
I. Domestic sales	436.4	98.3	426	386.2	97.8	317	13.0	34.4
(I) Self-produced coal and purchased coal	416.3	93.8	426	374.4	94.8	316	11.2	34.8
1. Direct arrival	160.3	36.1	310	151.3	38.3	229	5.9	35.4
2. Seaborne	256.0	57.7	498	223.1	56.5	376	14.7	32.4
(II) Sales of domestic trading coal	19.4	4.4	427	11.6	2.9	339	67.2	26.0
(III) Sales of imported coal	0.7	0.1	591	0.2	0.1	415	250.0	42.4
II. Export sales	2.2	0.5	447	3.3	0.8	407	(33.3)	9.8
III. Overseas coal sales	5.2	1.2	382	5.4	1.4	276	(3.7)	38.4
(I) EMM Indonesia	1.7	0.4	108	1.8	0.5	97	(5.6)	11.3
(II) Re-export trade	3.5	0.8	518	3.6	0.9	367	(2.8)	41.1
Total sales volume/average price	443.8	100.0	425	394.9	100.0	317	12.4	34.1
Including: Sales to external customers	344.7	77.7	436	305.5	77.4	321	12.8	35.8
Sales to internal power segment	94.7	21.3	390	85.4	21.6	308	10.9	26.6
Sales to internal coal chemical segment	4.4	1.0	359	4.0	1.0	237	10.0	51.5

Table 13 Coal Resources Reserve

Mines	Coal resources (under PRC standard) As at 31 December 2017 100 million tonnes	Coal resources As at 31 December 2016 100 million tonnes	Change %	Recoverable reserve (under PRC standard) As at 31 December 2017 100 million tonnes	Recoverable reserve As at 31 December 2016 100 million tonnes	Change %	Marketable reserve (under JORC standard) As at 31 December 2017 100 million tonnes	Marketable reserve As at 31 December 2016 100 million tonnes	Change %
Shendong Mines	162.3	164.5	(1.3)	93.8	95.4	(1.7)	49.7	51.6	(3.7)
Zhunge'er Mines	39.6	40.1	(1.2)	31.7	32.2	(1.6)	21.2	21.7	(2.3)
Shengli Mines	20.4	20.6	(1.0)	14.0	14.1	(0.7)	2.3	2.5	(8.0)
Baorixile Mines	14.2	14.4	(1.4)	12.0	12.2	(1.6)	12.3	12.6	(2.4)
Baotou Mines	0.5	0.5	–	0.4	0.4	–	–	0.1	(100.0)
Total of China Shenhua	237.0	240.1	(1.3)	151.9	154.3	(1.6)	85.5	88.5	(3.4)

Table 14 Seaborne Coal at Ports

	2017 million tonnes	2016 million tonnes	Change %
Self-owned ports	227.8	201.3	13.2
Huanghua Port	184.1	158.6	16.1
Shenhua Tianjin Coal Dock	43.7	39.5	10.6
Shenhua Zhuhai Coal Dock	–	3.2	(100.0)
Third-party ports	30.4	25.1	21.1
Total seaborne coal sales	258.2	226.4	14.0

Table15 Railway Cargo Transportation Turnover

	2017 billion tonnes km	2016 billion tonnes km	Change %
Self-owned railways	273.0	244.6	11.6
Shenshuo Railway	52.6	49.2	6.9
Shuohuang-Huangwan Railway	171.1	154.3	10.9
Dazhun Railway	28.4	24.2	17.4
Baoshen Railway	8.9	7.3	21.9
Ganquan Railway	1.4	0.9	55.6
Bazhun Railway	2.1	1.2	75.0
Zhunchi Railway	8.5	7.5	13.3
Tahan Railway	–	–	N/A
State-owned railways	30.6	26.6	15.0
Total railway turnover	303.6	271.2	11.9
Self-owned railways under construction		Length	Planned annual transportation capacity
Huangda Railway		210.2km	40 million tonnes

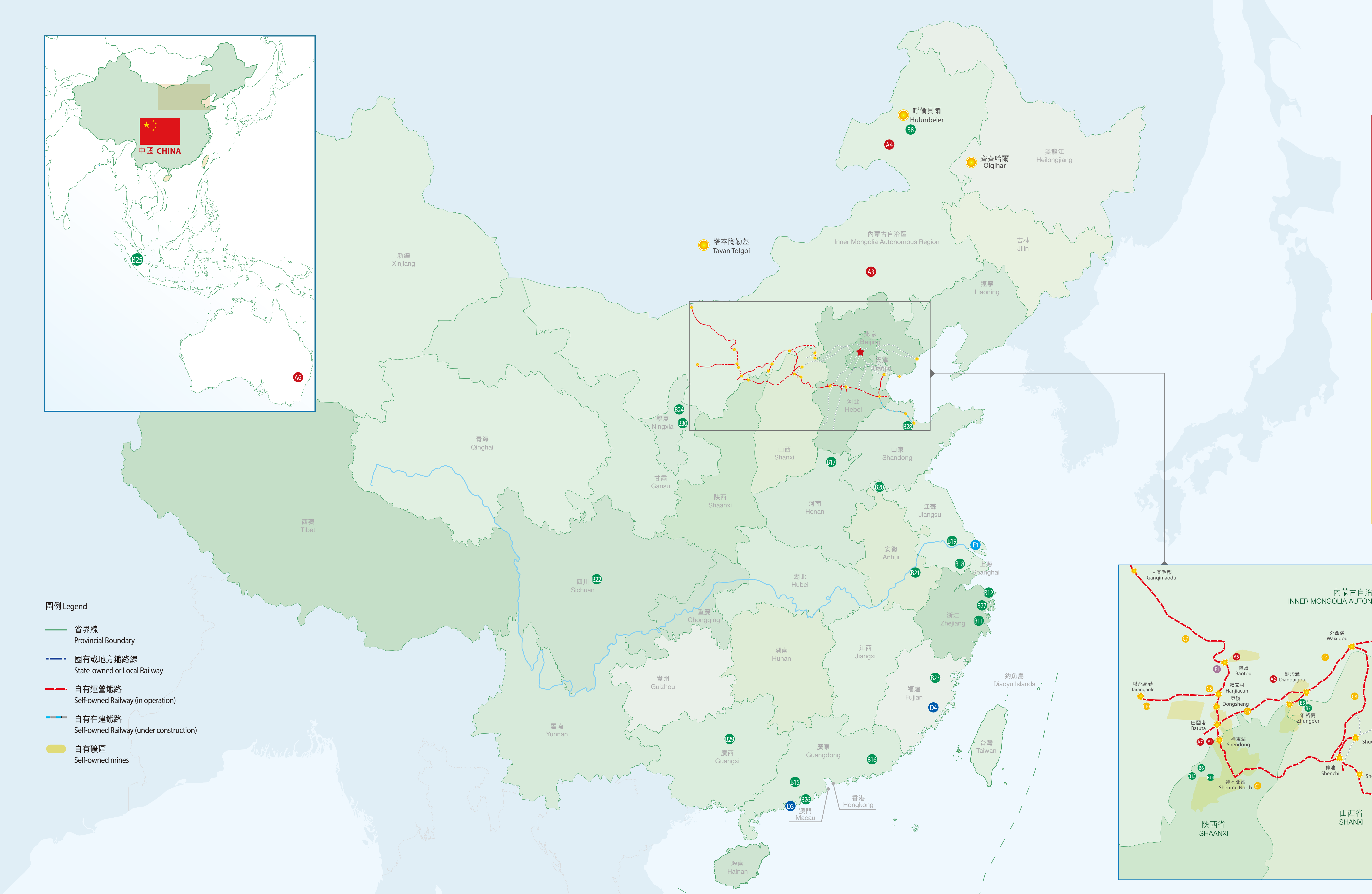
Table 16 Shipping Volume

	2017 million tonnes	2016 million tonnes	Change %
Shenhua Zhonghai Shipping Company			
The Group's internal customers	70.1	60.7	15.5
External customers	22.9	18.5	23.8
Total of shipping volume	93.0	79.2	17.4

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

主要資產分佈圖 Assets Distribution Map

2018



煤礦 COAL MINE

- A1. 神東礦區 Shendong Mines
- A2. 准格爾礦區 Zhunge'er Mines
- A3. 勝利礦區 Shengli Mines
- A4. 寶日希勒礦區 Baorixile Mines
- A5. 包頭礦區 Baotou Mines
- A6. 澳大利亞沃特馬克煤礦項目（前期工作階段） Watermark Coal Project in Australia (preliminary work in progress)
- A7. 新街台格廟勘查區（前期工作階段） Xinjie Taigemiao Exploration Area (preliminary work in progress)

電廠 POWER

- B1. 滄東電力 Cangdong Power
- B2. 三河電力 Sanhe Power
- B3. 定州電力 Dingzhou Power
- B4. 盤山電力 Panshan Power
- B5. 准能電力 Zhunge'er Power
- B6. 神東電力 Shendong Power
- B7. 國華准格爾 Guohua Zhunge'er
- B8. 國華呼電 Guohua Hulunbeier Power
- B9. 北京燃氣 Beijing Gas Power
- B10. 綏中電力 Suizhong Power
- B11. 浙能電力 Zheneng Power
- B12. 舟山電力 Zhoushan Power
- B13. 錦界能源 Jinjie Energy
- B14. 神木電力 Shenmu Power
- B15. 台山電力 Taishan Power
- B16. 惠州熱電 Huizhou Thermal
- B17. 孟津電力 Mengjin Power
- B18. 太倉電力 Taicang Power
- B19. 陳家港電力 Chenjiagang Power
- B20. 徐州電力 Xuzhou Power
- B21. 神皖能源 Shenwan Energy
- B22. 神華四川能源 Shenhua Sichuan Energy
- B23. 神華福建能源 Shenhua Fujian Energy
- B24. 寧東電力 Ningdong Power
- B25. 南蘇EMM EMM Indonesia
- B26. 珠海風能 Zhuhai Wind
- B27. 余姚電力 Yuyao Power
- B28. 壽光電力 Shouguang Power
- B29. 柳州電力 Liuzhou Power
- B30. 國華寧東 Guohua Ningdong

鐵路 RAILWAY

- C1. 神朔鐵路 Shenshuo Railway
- C2. 朔黃鐵路 Shuohuang Railway
- C3. 黃萬鐵路 Huangwan Railway
- C4. 大准鐵路 Dazhun Railway
- C5. 包神鐵路 Baoshen Railway
- C6. 巴准鐵路 Bazhun Railway
- C7. 甘泉鐵路 Ganquan Railway
- C8. 准池鐵路 Zhunchi Railway
- C9. 黃大鐵路（在建） Huangda Railway (under construction)
- C10. 塔韓鐵路 Tahan Railway

港口 PORT

- D1. 黃驊港 Huanghua Port
- D2. 神華天津煤碼頭 Shenhua Tianjin Coal Dock
- D3. 珠海煤碼頭 Zhuhai Coal Dock
- D4. 羅源灣項目(籌備中) Luoyuan Wan Project (under preparation)

煤化工 COAL CHEMICAL

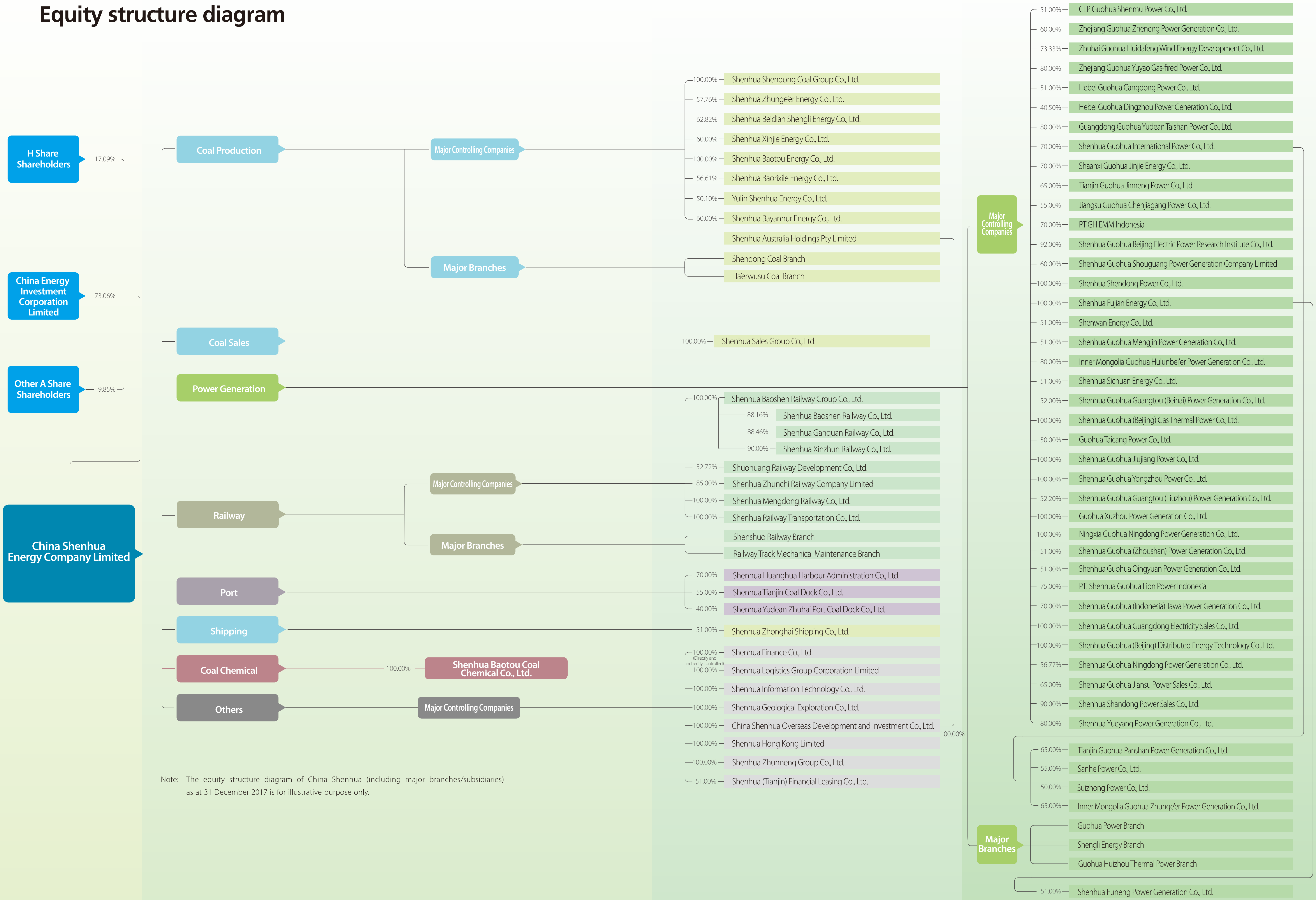
- F1. 包頭煤化工 Baotou Coal Chemical

航運 SHIPPING

- E1. 神華中海航運 Shenhua Zhonghai Shipping Company

註： 於2017年12月31日之分佈圖，僅做示意。
Note: This map as at 31 December 2017 is for illustrative purpose only.

Equity structure diagram



Note: The equity structure diagram of China Shenhua (including major branches/subsidiaries) as at 31 December 2017 is for illustrative purpose only.

Section V Directors' Report

I. DISCUSSION AND ANALYSIS ON OPERATION RESULTS

The supply-side structural reform recorded remarkable achievements in 2017. The national coal market saw a tight supply-demand balance with the price fluctuating at a high level due to supply and demand relationship and seasonal changes. Seizing the opportunity, China Shenhua well organized coal production and made efforts to increase coal purchase to strengthen the coordination among production, transportation and sales. While further enhancing the coordination of production and transportation, China Shenhua intensified marketing efforts on power and witnessed expansion in coal, power and transportation segments. With its efforts in improving quality and efficiency and optimising cost control system, China Shenhua recorded significant growth in the operating results.

The Group recorded a profit for the year of RMB57,138 million (2016: RMB31,970 million) representing a year-on-year increase of 78.7%; a profit for the year attributable to equity holders of the Company of RMB47,795 million (2016: RMB24,910 million); and basic earnings per share of RMB2.403/share (2016: RMB1.252/share), representing a year-on-year increase of 91.9%.

		Actual amount for 2017	Target for 2017 *(after adjustments)*	Proportion of Completion %	Actual amount for 2016	Year-on-year change %
Commercial coal production	100 million tonnes	**2.954**	2.78	106.3	2.898	1.9
Coal sales	100 million tonnes	**4.438**	3.96	112.1	3.949	12.4
Total power output dispatch	Billion kWh	**246.25**	229.0	107.5	220.57	11.6
Revenue	RMB100 million	**2,487.46**	2,215	112.3	1,831.27	35.8
Cost of sales	RMB100 million	**1,604.60**	1,499	107.0	1,248.43	28.5
Selling, general and administrative expenses and net finance costs	RMB100 million	**132.79**	147	90.3	140.58	(5.5)
Changes in unit production costs of self-produced coal	/	**Year-on-year decrease of 1.6%**	Level-off	/	Year-on-year decrease of 11.0%	/

Note: Upon the approval at the fifth meeting of the fourth session of the Board, the Company has made adjustments to the operating target for 2017 pursuant to industry policies and based on market environment and operation of the Company.

Major financial indicators of the Group for 2017 are as follows:

		2017	2016	Change
Return on total assets as at the end of the period	%	**10.0**	5.5	Increased by 4.5 percentage points
Return on net assets as at the end of the period	%	**15.6**	7.9	Increased by 7.7 percentage points
EBITDA	RMB million	**101,310**	70,762	Increased by 43.2%

		As at 31 December 2017	As at 31 December 2016	Change
Equity attributable to equity holders per share	RMB/share	**15.36**	15.94	Decreased by 3.6%
Gearing ratio	%	**33.7**	33.2	Increased by 0.5 percentage point
Total debt to total debt and total equity ratio	%	**20.4**	22.0	Decreased by 1.6 percentage points

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

II. MAJOR OPERATION RESULTS DURING THE REPORTING PERIOD

(I) Analysis on principal business

Changes in the Major Items in the Consolidated Statement of Profit or Loss and Consolidated Statement of Cash Flows

Unit: RMB million

Items	2017	2016	Change %
Revenue	**248,746**	183,127	35.8
Cost of sales	**(160,460)**	(124,843)	28.5
General and administrative expenses	**(9,456)**	(8,423)	12.3
Other gains and losses	**(1,880)**	(3,078)	(38.9)
Other income	**894**	1,379	(35.2)
Other expenses	**(1,262)**	(1,511)	(16.5)
Interest income	**1,205**	723	66.7
Finance costs	**(4,416)**	(5,748)	(23.2)
Share of results of associates	**534**	237	125.3
Income tax expense	**(16,155)**	(9,283)	74.0
Net cash generated from operating activities	**95,152**	81,883	16.2
Of which: Net cash generated from (used in) operating activities of Shenhua Finance Company [Note]	**7,221**	(10,681)	(167.6)
Net cash generated from operating activities excluding the effect of Shenhua Finance Company	**87,931**	92,564	(5.0)
Net cash generated from (used in) investing activities	**13,363**	(64,654)	(120.7)
Net cash used in financing activities	**(77,621)**	(18,490)	319.8

Note: 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. **Revenue and costs**

(1) Factors affecting the revenue

The revenue of the Group in 2017 recorded a year-on-year increase of 35.8%. The main reasons for such change are:

① While the macro economy showed positive growth amidst stability, the coal market saw a tight supply-demand balance with the price fluctuating at a high level. In 2017, the Group realised 443.8 million tonnes of coal sales volume (2016: 394.9 million tonnes), representing a year-on-year increase of 12.4%. The average sales price of coal stood at RMB425 per tonne (tax exclusive) (2016: RMB317 per tonne), representing a year-on-year increase of 34.1%;

② Benefited from the growth of total power consumption of the society, a weak hydropower supply and the Group's strengthened marketing efforts, the power output dispatch of the Group in 2017 reached 246.25 billion kWh (2016: 220.57 billion kWh), representing a year-on-year increase of 11.6%;

③ Due to the increase in coal sales volume, the transportation turnover of self-owned railways of the Group in 2017 was 273.0 billion tonne km (2016: 244.6 billion tonne km), representing a year-on-year growth of 11.6%;

④ The sales volume and sales prices of polyolefin products witnessed a year-on-year growth.

Major operating indicators	Unit	**2017**	2016	Change for 2017 compared with that for 2016 %	2015
(I) Coal					
1. Commercial coal production	Million tonnes	**295.4**	289.8	1.9	280.9
2. Coal sales	Million tonnes	**443.8**	394.9	12.4	370.5
Of which:					
Self-produced coal	Million tonnes	**301.0**	285.5	5.4	289.3
Purchased coal	Million tonnes	**142.8**	109.4	30.5	81.2
(II) Power generation					
1. Gross power generation	Billion kWh	**262.87**	236.04	11.4	225.79
2. Total power output dispatch	Billion kWh	**246.25**	220.57	11.6	210.45
(III) Coal chemical					
1. Sales of polyethylene	Thousand tonnes	**324.6**	292.6	10.9	319.2
2. Sales of polypropylene	Thousand tonnes	**308.8**	282.1	9.5	312.9
(IV) Transportation					
1. Turnover of self-owned railway	Billion tonne km	**273.0**	244.6	11.6	200.1
2. Seaborne coal	Million tonnes	**258.2**	226.4	14.0	203.8
Of which: Via Huanghua Port	Million tonnes	**184.1**	158.6	16.1	111.6
Via Shenhua Tianjin Coal Dock	Million tonnes	**43.7**	39.5	10.6	40.3
3. Shipping volume	Million tonnes	**93.0**	79.2	17.4	79.8
4. Shipment turnover	Billion tonne nautical miles	**80.4**	63.0	27.6	64.1

(2) Analysis of costs

Unit: RMB million

Breakdown of cost items	**Amount for the year**	Percentage to cost of sales for the year %	Amount for the previous year	Percentage to cost of sales for the previous year %	Change in amount for the year over that of the previous year %
Cost of coal purchased	**49,950**	31.1	26,286	21.1	90.0
Materials, fuel and power	**19,523**	12.2	16,405	13.1	19.0
Personnel expenses	**13,842**	8.6	12,661	10.1	9.3
Depreciation and amortisation	**21,576**	13.5	21,744	17.4	(0.8)
Repairs and maintenance	**9,938**	6.2	9,509	7.6	4.5
Transportation charges	**14,326**	8.9	10,172	8.2	40.8
Taxes and surcharges	**9,640**	6.0	6,922	5.6	39.3
Others	**21,665**	13.5	21,144	16.9	2.5
Total cost of sales	**160,460**	100.0	124,843	100.0	28.5

The cost of sales of the Group in 2017 represented a year-on-year increase of 28.5%, of which:

① The cost of coal purchased represented a year-on-year increase of 90.0%, which was mainly attributable to the year-on-year increase in the procurement price of coal and the expansion of the sales volume of purchased coal by the Group according to market supply and demand;

② Costs of materials, fuel and power represented a year-on-year increase of 19.0%, which was mainly attributable to the increase in coal cost in the power segment as a result of the increase of coal price;

③ Personnel expenses represented a year-on-year increase of 9.3%, which was mainly attributable to the increase in provision for performance-based salary caused by the growth in operating results on a basis of the determination of performance-based salary based on the actual operating results of the Group;

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 40.8% in 2017, which was mainly attributable to the year-on-year increase in transportation volume of the Group through national railways as a result of the growth in sales volume of coal;

⑤ Taxes and surcharges represented a year-on-year increase of 39.3%, which was mainly attributable to the increase in resource tax and relevant surtaxes resulting from an increase in sales price of coal.

Unit: RMB million

Cost of sales by business segment (before eliminations on consolidation)

Business segment	Items of costs	2017	2016	Change %
Coal	Cost of coal purchased, production cost of self-produced coal (raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, and other expenses), transportation charges, other operating costs, and taxes and surcharges	**143,461**	109,404	31.1
Power	Raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, other costs, other operating costs, and taxes and surcharges	**68,388**	53,939	26.8
Railway	Cost of internal transportation business (raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, external transportation charges, and other expenses), external transportation charges, other operating costs, and taxes and surcharges	**18,632**	17,350	7.4
Port	Cost of internal transportation business (raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, and other expenses), external transportation charges, other operating costs, and taxes and surcharges	**2,880**	2,523	14.1
Shipping	Cost of internal transportation business (raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, external transportation charges, and other expenses), external transportation charges, and taxes and surcharges	**2,472**	1,707	44.8
Coal chemical	Raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, other expenses, other operating costs, and taxes and surcharges	**4,968**	4,330	14.7

(3) Major business segments

The major business model of the Group is the integrated coal industry chain: i.e. coal production → coal transportation (railway, port and shipping) → use of coal (power and coal chemical), and there are business intercourses between each segment. The revenue and cost of sales of the following business segments are the data before eliminations on consolidation of each segment.

Unit: RMB million

Major business segments in 2017 (before eliminations on consolidation)

Business segment	Revenue	Cost of sales	Gross profit margin %	Increase/decrease in revenue as compared with previous year %	Increase/decrease in cost of sales as compared with previous year %	Increase/decrease in gross profit margin as compared with previous year
Coal	195,918	143,461	26.8	49.1	31.1	Increased by 10.1 percentage points
Power	79,511	68,388	14.0	13.8	26.8	Decreased by 8.8 percentage points
Railway	37,586	18,632	50.4	12.1	7.4	Increased by 2.1 percentage points
Port	5,717	2,880	49.6	13.4	14.1	Decreased by 0.3 percentage point
Shipping	3,247	2,472	23.9	53.7	44.8	Increased by 4.7 percentage points
Coal chemical	5,681	4,968	12.6	17.6	14.7	Increased by 2.2 percentage points

The percentages of the profit from operations attributable to the coal, power, transportation and coal chemical segments of the Group before elimination on consolidation changed from 36%, 25%, 38% and 1% in 2016 to 61%, 10%, 28% and 1% in 2017 respectively. Such significant changes were mainly attributable to the increase in profits of coal segment resulted from growing sales volume and coal and rising coal price, and the decrease in profit of the power segment.

(4) Analysis of the production and sales volume

Major products	Production	Sales volume	Inventory	Year-on-year increase/ decrease in production volume %	Year-on-year increase/ decrease in sales volume %	Increase/ decrease in inventory as compared with the beginning of the year %
Coal	295.4 million tonnes	443.8 million tonnes	24.7 million tonnes	1.9	12.4	(16.0)
Power	262.87 billion kWh	246.25 billion kWh	/	11.4	11.6	/

(5) Major customers

No.	Top five customers	2017 Revenue *RMB million*	2017 Percentage to revenue *%*
1	First	**13,658**	**5.5**
2	Second	**8,717**	**3.5**
3	Third	**6,478**	**2.6**
4	Fourth	**3,853**	**1.5**
5	Fifth	**3,701**	**1.5**
Total		**36,407**	**14.6**

(6) Major suppliers

In 2017, the total procurement from the top five suppliers of the Company amounted to RMB20,012 million, accounting for 15.7% of the total procurement for the year.

2. Other items of consolidated statement of profit or loss

(1) General and administrative expenses: representing a year-on-year increase of 12.3% in 2017, which was mainly attributable to the increase in provision for performance-based salary caused by the growth in operating results on a basis of the determination of performance-based salary based on the actual operating results of the Group.

(2) Other gains and losses: representing a year-on-year decrease of 38.9% in other losses of 2017, which was mainly attributable to the increase in gains from wealth management products, increase in gains from disposal of intangible assets and the decrease in the loss on the disposal of fixed assets.

(3) Other income: representing a year-on-year decrease of 35.2% in 2017, which was mainly attributable to the decrease in government grants for the railway segment.

(4) Other expenses: representing a year-on-year decrease of 16.5% in 2017, which was mainly attributable to the decrease of donations to third parties.

(5) Interest income: representing a year-on-year increase of 66.7% in 2017, which was mainly attributable to the increase in average deposit balance placed with external financial institutions as compared to that of previous year.

(6) Finance costs: representing a year-on-year decrease of 23.2% in 2017, which was mainly attributable to the increase in foreign exchange gains.

(7) Share of results of associates: representing a year-on-year increase of 125.3% in 2017, which was mainly attributable to the increase in investment income of associates of coal.

(8) Income tax expense: representing a year-on-year increase of 74.0% in 2017, which was mainly attributable to the significant increase in profit before tax. The average rate of income tax in 2017 was 22.0% (2016: 22.5%), with a decrease of 0.5 percentage point, which was mainly attributable to the increase in percentage of profits in the coal segment, of which more controlling subsidiaries are entitled to preferential tax rates, and the decrease in percentage of profits in the power and transportation segments, of which less controlling subsidiaries are entitled to preferential tax rates.

3. Investment in research and development

Expensed research and development expenditure in the period *(RMB million)*	341
Capitalised research and development expenditure in the period *(RMB million)*	522
Total research and development expenditure *(RMB million)*	863
Ratio of capitalised research and development expenditure *(%)*	60.5
Percentage of total research and development expenditure to revenue *(%)*	0.3
Number of research and development personnel in the Company *(number of person)*	2,380
The ratio of research and development personnel to the total number of persons in the Company *(%)*	2.7

In 2017, investment in research and development recorded a year-on-year increase of 50.1% (2016: RMB575 million), which is mainly utilised in development of the technology and equipment integration of intelligent and mechanised mining with massive, comprehensive mining for highlands, the comprehensive use of coal ash after combustion and preservation, the key equipment on digital mines, the technology integration of deep removal of pollutants contained in the flue gas exhausted by coal-fired power plants and relevant application, and the technology and equipment for heavy haul railway.

4. Cash flow

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 increase of 16.2% in 2017, of which, net cash generated from operating activities of Shenhua Finance Company was RMB7,221 million (2016: RMB10,681 million used in operating activities), representing a year-on-year change of 167.6%, which was mainly attributable to the increase in deposits placed with Shenhua Finance Company. Excluding the effects of Shenhua Finance Company, net cash generated from operating activities of the Group represented a year-on-year decrease of 5.0%, which was mainly attributable to the recovery of concentrated maturity of bills receivable in the corresponding period of last year and the decrease of accounts receivable, which introduced a relatively large amount of cash inflow. Taxes including resource tax paid during the reporting period increased.

(2) Net cash generated from (used in) investing activities: RMB13,363 million of net cash generated from investing activities in 2017 (2016: RMB64,654 million used in investing activities), representing a year-on-year change of 120.7%, which was mainly attributable to the maturity of wealth management products during the reporting period.

(3) Net cash used in financing activities: representing a year-on-year increase of 319.8% in 2017, which was mainly attributable to the distribution of special dividends during the reporting period.

(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

Items	**Amount at the end of the year**	**Percentage of total assets at the end of the year** %	Amount at the end of the previous year	Percentage of total assets at the end of the previous year %	Change of the amount %	Main reasons for changes
Construction in progress	**39,054**	**6.8**	35,220	6.1	10.9	Increase in investment in power and railway engineering projects
Exploration and evaluation assets	**998**	**0.2**	2,344	0.4	(57.4)	Return of the exploration license for around 100 sq.km. in black earth-based exploration area of Watermark Coal Project in Australia
Interest in associates	**9,513**	**1.7**	5,142	0.9	85.0	Capital contribution to railway companies
Available-for-sale investment	**854**	**0.1**	1,800	0.3	(52.6)	Classification as interests in associates regarding the investment of railway joint stock company due to increase in capital contribution
Other non-current assets	**33,466**	**5.9**	36,749	6.4	(8.9)	Decrease in long-term loans issued by Shenhua Finance Company
Inventory	**11,647**	**2.0**	13,341	2.3	(12.7)	Decrease in coal inventory and reserve
Accounts and bills receivable	**19,455**	**3.4**	20,573	3.6	(5.4)	Decrease in balance of accounts receivable due to strengthened collection management
Prepaid expenses and other current assets	**20,452**	**3.6**	48,792	8.5	(58.1)	Decrease in balance of wealth management products
Restricted bank deposits	**7,348**	**1.3**	6,141	1.1	19.7	Increase in balance of deposit accounts for acceptance bills

Unit: RMB million

Items	Amount at the end of the year	Percentage of total assets at the end of the year %	Amount at the end of the previous year	Percentage of total assets at the end of the previous year %	Change of the amount %	Main reasons for changes
Time deposits with original maturity over three months	**1,870**	**0.3**	3,428	0.6	(45.4)	Maturity of time deposits
Cash and cash equivalents	**71,872**	**12.6**	41,188	7.1	74.5	Growing cash generated from operating activities of coal and transportation segment, recovery upon maturity of wealth management products and increase in deposits placed with Shenhua Finance Company
Short-term borrowings	**15,785**	**2.8**	11,811	2.0	33.6	Increase in short-term borrowings of the power segment
Accrued expenses and other payables	**51,995**	**9.1**	41,361	7.2	25.7	Increase in balance of deposits placed with Shenhua Finance Company
Current portion of medium-term notes	**4,995**	**0.9**	19,989	3.5	(75.0)	Repayment upon maturity of medium-term notes
Current portion of bonds	**3,267**	**0.6**	0	0.0	N/A	Part of bonds denominated in US Dollar will be expired within one year
Income tax payable	**5,604**	**1.0**	3,465	0.6	61.7	Increase of enterprise income tax payable for coal and railway segments
Long-term borrowings	**64,321**	**11.3**	58,462	10.1	10.0	Increase in balance of long-term borrowings from power segment
Medium-term notes	**0**	**0.0**	4,985	0.9	(100.0)	Medium-term notes to be due within one year were transferred to current portion of bonds
Bonds	**6,485**	**1.1**	10,331	1.8	(37.2)	Part of bonds denominated in US dollar and to be due within one year were transferred to current portion of bonds
Equity attributable to owners of the Company	**305,541**	**53.5**	316,975	55.0	(3.6)	Distribution of special dividends by the Company during the reporting period

2. Restriction on the major assets

The Group has no major assets sequestered or distrained. As of the end of the reporting period, the balance of restricted assets of the Group amounted to RMB9,272 million, which mainly consists of statutory deposit reserves balance of Shenhua Finance Company placed at the central bank amounting to RMB4,825 million. Other restricted assets were mainly deposits of bank acceptance bills as well as intangible assets and fixed assets as collaterals for bank borrowings.

Unit: RMB million

Items	Par value as at the end of the year	Limitation
Restricted bank deposits	7,348	Deposit reserves and various deposits
Bills receivable	388	Pledges used to issue bills payables
Fixed assets	644	Mortgages used for bank borrowings
Intangible assets	892	Mortgages used for bank borrowings
Total	9,272	–

(IV) Operation results by business segment

1. Coal segment

(1) Production, operation and construction

The majority of the coal products produced and sold by the Group were thermal coal. The downstream sectors maintained strong demands for coal in 2017 due to the steady and positive growth of macro economy, weather and other factors. Complying with laws and regulations in production, the Group consolidated the capacity of high quality mines and made the most of purchased coal, thereby realising balanced coal production with high efficiency and ensuring adequate supply to the market. Whiling advancing mine construction with safety and efficiency, the Group enhanced the basic management of coal mines to provide guarantee for production safety. The Group also promoted the initiative of quality and efficiency improvement, improved the calorific value of thermal coal and expanded the output of high value-added special coal. As it promoted technology innovation and accelerated the development and application of information and mining technologies, the Group witnessed continuous improvement in the production efficiency and the unit output and unit roadheading level. The world's first set of surface with high roof support with a height of 8.8 meters was put into trial operation in the first quarter of 2018.

The Group's output of commercial coal reached 295.4 million tonnes in the year (2016: 289.8 million tonnes), representing a year-on-year growth of 1.9%, which was mainly attributable to the increased output of Shendong Mines and Shengli Mines. The total footage of advancing tunnels was 335 thousand meters (2016: 380 thousand meters), representing a year-on-year decrease of 11.8%.

Affected by the slow progress in land acquisition and the delayed stripping works, the Ha'erwusu Open-pit Mine recorded 17.0 million tonnes of commercial coal output, which represented a year-on-year decrease of 38.0%. To satisfy winter coal demands in the Northeast China, Shenbao Open-pit Mine strived for coal production and achieved 25.3 million tonnes of commercial coal output, which represented a year-on-year increase of 1.2%. So far, the Company launched stripping works with intensified efforts for the above two mines to reduce its impact on coal production given the support of governments and related parties.

Qinglongsi Mine with designed capacity of 3.0 million tonnes per year was put into operation in July 2017. The north of Xinjie Taigemiao Mine has obtained the exploration permit, while the application for exploration permit for the south is in progress. The overall planning of the mine has been approved in 2017.

Production and sales volumes of all coals in 2017 of the Group are as below:

Types of coal	**Production volume**	**Sales volume**	**Revenue**	**Cost of sales**	**Gross profit**
	Million tonnes	*Million tonnes*	*RMB million*	*RMB million*	*RMB million*
Thermal coal	295.4	442.6	187,347	130,671	56,676
Others	0	1.2	1,496	1,495	1
Total	295.4	443.8	188,843	132,166	56,677

As coal products were in great variety, and some of self-produced coal products were transported and sold together with purchased coal, the Group cannot present the revenue, cost of sales and gross profit by source of coal (self-produced coal and purchased coal).

In 2017, the Company'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 RMB48 million (2016: RMB25 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 RMB3,332 million (2016: RMB4,551 million), which was mainly attributable to the expenses for development of Xinjie Taigemiao Mine and the expenditure related to coal mining for Shendong Mines, Zhunge'er Mines and Baorixile Mines, etc, consideration payment for mining rights and acquisition of fixed assets.

The Group has independently operated railway collection and distribution channels. These channels are centralised and distributed in the rim of self-owned core mines, and can transport coal in the core mines. For details of operation of the self-owned railways, please refer to the section headed "Railway Segment" herein.

(2) Sales of coal

The coal sold by the Group is mainly self-produced coal. In order to fulfill the needs of customers and adequately make use of railway transportation, the Group also purchased 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 specialised division management. Production enterprises are responsible for production of coal, and Shenhua Trading Group is mainly responsible for sales of coal. Customers have different industry background, such as power, metallurgy, chemical and construction materials.

The Group set the objective of maximising the seaborne coal sales in 2017. Leveraging its self-owned ports and railway logistic system, it made appropriate arrangements for coal source, allocation and transportation, and marketing activities, implemented flexible price policies and operation strategies, promoted the business patterns of "transit bases" and "quasi-liner shipping schedule", and therefore realised integrated operation with stability and high efficiency. While adapting to market trends and developing new regional markets and non-thermal coal market, the Group diversified the procurement pattern of purchased coal and consolidated the source of purchased coal. During the year, sales volume of coal reached 443.8 million tonnes (2016: 394.9 million tonnes), representing a year-on-year increase of 12.4%. Sales volume of coal in the domestic market was 436.4 million tonnes, accounting for 13.0% of the national coal sales volume during the same period, being 3,367 million tonnes[1]. The seaborne coal sales for the year reached 258.2 million tonnes (2016: 226.4 million tonnes), representing a year-on-year increase of 14.0%. The seaborne coal sales at Huanghua Port and Shenhua Tianjing Coal Dock in aggregate accounted for 88.2% of the total seaborne coal sales of the Group, representing a year-on-year increase of 0.7 percentage point (2016: 87.5%). Such sales volume became a driving force to improve revenues of railway and port segments, thus realizing maximum benefits of integrated operation.

The Group expanded sales channels for coal and improved management through Shenhua Coal Trading Network (https://www.e-shenhua.com) developed by itself. In 2017, the coal sales volume of the Group through Shenhua Coal Trading Network reached 199.0 million tonnes.

Domestic coal demands continued to recover in 2017; the market saw a tight supply-demand balance, with the coal price fluctuating at a high level. The average coal sales price of the Group was RMB425 per tonne (tax exclusive) (2016: RMB317 per tonne), representing a year-on-year growth of 34.1%.

1 Data source: State Administration of Coal Mine Safety

In 2018, the Group will maintain a long-term price negotiation mechanism regarding self-produced coal that is the same as 2017.

At the beginning of 2018, the Group signed three-year (2019–2021) long-term price negotiation contracts with six well-established power companies that have been collaborating with the Group for a long period of time, reaching agreement on annual coal sales volume, pricing and price adjustments and facilitating the stability of coal sales volume and prices. According to the contracts, the Group will adopt the pricing mechanism of "benchmark price (RMB535/tonne for 5,500 kcal thermal coal (tax-inclusive spot FOB)) + float price".

① By sales regions

	2017			2016			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	436.4	98.3	426	386.2	97.8	317	13.0	34.4
(I) Self-produced coal and purchased coal	416.3	93.8	426	374.4	94.8	316	11.2	34.8
1. Direct arrival	160.3	36.1	310	151.3	38.3	229	5.9	35.4
2. Seaborne	256.0	57.7	498	223.1	56.5	376	14.7	32.4
(II) Sales of domestic trading coal	19.4	4.4	427	11.6	2.9	339	67.2	26.0
(III) Sales of imported coal	0.7	0.1	591	0.2	0.1	415	250.0	42.4
II. Export Sales	2.2	0.5	447	3.3	0.8	407	(33.3)	9.8
III. Overseas coal sales	5.2	1.2	382	5.4	1.4	276	(3.7)	38.4
(I) EMM Indonesia	1.7	0.4	108	1.8	0.5	97	(5.6)	11.3
(II) Re-export trade	3.5	0.8	518	3.6	0.9	367	(2.8)	41.1
Total sales volume/average price	443.8	100.0	425	394.9	100.0	317	12.4	34.1

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

In 2017, the sales volume of the Company to the top five domestic customers of coal was 63.9 million tonnes, which accounted for 14.6% of the domestic sales volume. In particular, the sales volume to the largest customer was 18.2 million tonnes, which accounted for 4.2% of the domestic sales volume. The top five domestic customers of coal were primarily power and coal trading companies.

② By internal and external customers

	2017			2016			
	Sales volume *Million tonnes*	Percentage *%*	Price *RMB/ tonne*	Sales volume *Million tonnes*	Percentage *%*	Price *RMB/ tonne*	Change in price *%*
Sales to external customers	**344.7**	**77.7**	**436**	305.5	77.4	321	35.8
Sales to internal power segment	**94.7**	**21.3**	**390**	85.4	21.6	308	26.6
Sales to internal coal chemical segment	**4.4**	**1.0**	**359**	4.0	1.0	237	51.5
Total sales volume/ average price	**443.8**	**100.0**	**425**	394.9	100.0	317	34.1

The Company adopted unified pricing policy for sales based on the long-term negotiation mechanism regarding the internal power segment, the coal chemical segment and external customers.

(3) Production safety

The Group took various measures to ensure production safety in 2017, and no major or more serious safety accident has occurred during the period. It promoted the safety accountability mechanism via setting explicit responsibilities for production-related professionals of all levels, strengthening assessment and punishment system and conducting safety management audit. The Group also improved the production safety management system and advanced the construction of risk control system. While setting stricter standards on potential risk identification and deepening the checking and governance of hidden danger the Group engaged in the development of major disaster prevention technology, and devoted itself to research of key technologies, thereby fostering a stronger support to safety assurance. In 2017, the fatality rate per million tonne of coal mines of the Group was 0.003, enabling the Group to maintain its internationally leading position.

Efforts in ensuring safe coal production are detailed in the 2017 CSR Report of the Group.

(4) Environmental protection

In 2017, the environmental safety level of the Group's mining areas have been continually advanced. It promoted green mining technologies to reduce emission of gas, water and coal gangue in the course of coal production. With breakthrough in subsidence prevention and control, Daliuta Coal Mine built the first national technology demonstration zone for subsidence soil and water conservation and ecological governance. For the increased investment in ecological development and expanded rehabilitation areas, "Zhunge'er Mine Park" obtained the eligibility to become a National Mining Park. No major or more serious environmental safety incident was reported during the year.

During the year, the Group invested a total of RMB322 million in conservation of soil and water and ecological construction and a total of RMB620 million in energy saving and environmental protection projects, used mining waste water of 81.1 million tonnes and paid sewage charges in accordance with requirements. At the end of 2017, balance of the "accrued reclamation obligations" amounted to RMB2,745 million, serving as strong financial guarantee for ecological construction.

Measures which are taken by the Company for environmental protection are detailed in the 2017 CSR Report of the Group.

(5) Coal resources

As at 31 December 2017, under the PRC Standard, the Group had coal resources amounting to 23.70 billion tonnes, representing a decrease of 1.3% as compared with that of the end of 2016; and recoverable coal reserve amounting to 15.19 billion tonnes, representing a decrease of 1.6% as compared with that of the end of 2016. The Group's marketable coal reserve amounted to 8.55 billion tonnes under the JORC Standard, representing a decrease of 3.4% as compared with that of the end of 2016.

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	162.3	93.8	49.7
Zhunge'er Mines	39.6	31.7	21.2
Shengli Mines	20.4	14.0	2.3
Baorixile Mines	14.2	12.0	12.3
Baotou Mines *(Note)*	0.5	0.4	–
Total	237.0	151.9	85.5

Note: As at 31 December 2017, the marketable coal reserve of Baotou Mines under the JORC Standard was 4,962 thousand tonnes.

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

No.	Mines	Major types of coal	Calorific value of major commercial coal products *kcal/kg*	Sulphur content *%*	Ash content *average, %*
1	Shendong Mines	Long flame coal/ non-caking coal	5,200–5,800	0.2–0.5	5–15
2	Zhunge'er Mines	Long flame coal	4,300–4,900	0.4–0.8	22–28
3	Shengli Mines	Lignite	3,000–3,200	0.5–0.8	19–22
4	Baorixile Mines	Lignite	3,400–3,600	0.2–0.3	13–15
5	Baotou Mines	Non-caking coal	3,800–4,800	0.4–0.6	10–20

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 geological conditions and production process.

(6) Operating results

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

		2017	2016	Change *%*	Main reasons for changes
Revenue	RMB million	**195,918**	131,357	49.1	Increase in sales price and volume of coal
Cost of sales	RMB million	**143,461**	109,404	31.1	Increase in sales volume of self-produced coal; Significant increase in the cost of purchased coal due to the year-on-year increase of both sales volume and procurement price of purchased coal; Increase in related transportation costs resulting from increased coal sales volume
Gross profit margin	%	**26.8**	16.7	Increased by 10.1 percentage points	
Profit from operations	RMB million	**46,051**	17,017	170.6	
Profit margin from operations	%	**23.5**	13.0	Increased by 10.5 percentage points	

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

	2017				2016			
	Revenue *RMB million*	**Costs** *RMB million*	**Gross profit** *RMB million*	**Gross profit margin** *%*	Revenue *RMB million*	Costs *RMB million*	Gross profit *RMB million*	Gross profit margin *%*
Domestic	**185,846**	**129,627**	**56,219**	**30.3**	122,486	97,487	24,999	20.4
Export and overseas	**2,997**	**2,539**	**458**	**15.3**	2,844	2,317	527	18.5
Total	**188,843**	**132,166**	**56,677**	**30.0**	125,330	99,804	25,526	20.4

③ Unit production cost of self-produced coal

Unit: RMB/tonne

	2017	2016	Change *%*	Main reasons for changes
Unit production cost of self-produced coal	**107.9**	109.6	(1.6)	
Materials, fuel and power	**17.9**	18.3	(2.2)	Decrease in consumption of materials and ancillary resulting from decrease in tunneling footage and less requirement for equipment and ancillary through optimisation of production units
Personnel expenses	**18.8**	17.6	6.8	Increase in the performance-based salary of staff due to the significant increase in the revenue of coal segment in 2017
Repairs and maintenance	**8.9**	8.7	2.3	
Depreciation and amortisation	**19.5**	21.9	(11.0)	Decrease in depreciation and amortisation due to the completion of sufficient provision for depreciation or amortisation of certain long-term assets and long-term deferred expenses for the year
Other costs	**42.8**	43.1	(0.7)	

Other costs consist of the following three components: (1) expenses directly related to production, including coal washing, selecting and processing expenses, and mining engineering expenses, etc., accounting for 60%; (2) auxiliary production expenses, accounting for 20%; (3) land requisition and surface subsidence compensation, environmental protection expenses and tax, accounting for 20%.

④ Cost of coal purchased from third parties

The coal purchased from third parties and sold 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 2017, sales volume of coal purchased by the Group from third parties was 142.8 million tonnes (2016: 109.4 million tonnes), representing a year-on-year increase of 30.5%, and its proportion of the Company's total sales volume of coal increased to 32.2% from 27.7% in 2016. The costs of coal purchased from third parties for the year was RMB49,950 million (2016: RMB26,286 million), representing a year-on-year increase of 90.0%. The increase was mainly due to the rise of coal procurement price and the increase of sales volume of coal purchased by the Company from third parties according to the demand and supply in the coal market.

2. Power segment

(1) Production and operations

In 2017, thermal power generation across the country recorded a year-on-year increase due to the year-on-year growth of total power consumption of the society and the weak hydropower supply. Through greater marketing efforts and improved operation safety of generating units, the Group realised 262.87 billion kWh (2016: 236.04 billion kWh) of power generation, representing a year-on-year increase of 11.4%. The total power output dispatch reached 246.25 billion kWh (2016: 220.57 billion kWh), representing a year-on-year increase of 11.6% and accounting for 3.9% of the total power consumption of the society at the same period (being 6,307.7 billion kWh[1]). By promoting market-based power transactions in a stable way and proactively exploring the internal and external direct supply market of the Group, power sales companies in places including Guangdong and Shandong made staged progress in the business development. During the year, the market-based power transaction of the Group was approximately 69.10 billion kWh, accounting for 28.1% of the total power output dispatch.

[1] Data Source: National Energy Administration

(2) Power consumption and power tariffs

① Classified by power type

Power type	Gross power generation (billion kWh) 2017	2016	Change %	Total power output dispatch (billion kWh) 2017	2016	Change %	Power tariff (RMB/mWh) 2017	2016	Change %
Coal-fired power	**256.86**	229.73	11.8	**240.39**	214.42	12.1	**306**	301	1.7
Wind power	**0.02**	0.03	(33.3)	**0.02**	0.03	(33.3)	**599**	596	0.5
Hydro power	**0.70**	0.67	4.5	**0.69**	0.65	6.2	**214**	223	(4.0)
Gas-fired power	**5.29**	5.61	(5.7)	**5.15**	5.47	(5.9)	**571**	537	6.3
Total	**262.87**	236.04	11.4	**246.25**	220.57	11.6	**312**	307	1.6

② Classified by location

Location/Type of power	Power generation (billion kWh) 2017	2016	Year-on-year %	Power output dispatch (billion kWh) 2017	2016	Year-on-year %	Power tariff (RMB/mWh) 2017	2016	Year-on-year %
Domestic in total/ weighted average	**261.29**	234.40	11.5	**244.87**	219.14	11.7	**311**	306	1.6
Hebei	**34.83**	33.99	2.5	**32.67**	31.84	2.6	**309**	300	3.0
coal-fired power	**34.83**	33.99	2.5	**32.67**	31.84	2.6	**309**	300	3.0
Jiangsu	**24.17**	23.87	1.3	**23.06**	22.74	1.4	**319**	313	1.9
coal-fired power	**24.17**	23.87	1.3	**23.06**	22.74	1.4	**319**	313	1.9
Zhejiang	**28.08**	25.84	8.7	**26.60**	24.42	8.9	**367**	360	1.9
coal-fired power	**26.37**	24.24	8.8	**24.93**	22.86	9.1	**352**	343	2.6
gas-fired power	**1.71**	1.60	6.9	**1.67**	1.56	7.1	**587**	608	(3.5)
Inner Mongolia	**21.34**	20.95	1.9	**19.20**	18.88	1.7	**212**	209	1.4
coal-fired power	**21.34**	20.95	1.9	**19.20**	18.88	1.7	**212**	209	1.4
Guangdong	**23.79**	20.85	14.1	**22.21**	19.39	14.5	**363**	376	(3.5)
coal-fired power	**23.77**	20.82	14.2	**22.19**	19.36	14.6	**363**	375	(3.2)
wind power	**0.02**	0.03	(33.3)	**0.02**	0.03	(33.3)	**599**	596	0.5
Shaanxi	**25.40**	24.25	4.7	**23.18**	22.11	4.8	**260**	252	3.2
coal-fired power	**25.40**	24.25	4.7	**23.18**	22.11	4.8	**260**	252	3.2
Anhui	**22.79**	21.48	6.1	**21.78**	20.45	6.5	**305**	299	2.0
coal-fired power	**22.79**	21.48	6.1	**21.78**	20.45	6.5	**305**	299	2.0
Liaoning	**18.13**	16.41	10.5	**17.03**	15.37	10.8	**299**	300	(0.3)
coal-fired power	**18.13**	16.41	10.5	**17.03**	15.37	10.8	**299**	300	(0.3)
Fujian	**13.40**	10.51	27.5	**12.80**	9.98	28.3	**328**	280	17.1
coal-fired power	**13.40**	10.51	27.5	**12.80**	9.98	28.3	**328**	280	17.1
Xinjiang	**4.79**	4.16	15.1	**4.39**	3.82	14.9	**194**	197	(1.5)
coal-fired power	**4.79**	4.16	15.1	**4.39**	3.82	14.9	**194**	197	(1.5)
Tianjin	**5.15**	5.29	(2.6)	**4.81**	4.96	(3.0)	**360**	331	8.8
coal-fired power	**5.15**	5.29	(2.6)	**4.81**	4.96	(3.0)	**360**	331	8.8
Henan	**5.94**	4.44	33.8	**5.62**	4.18	34.4	**305**	307	(0.7)
coal-fired power	**5.94**	4.44	33.8	**5.62**	4.18	34.4	**305**	307	(0.7)

Location/Type of power	Power generation (billion kWh) 2017	2016	Year-on-year %	Power output dispatch (billion kWh) 2017	2016	Year-on-year %	Power tariff (RMB/mWh) 2017	2016	Year-on-year %
Sichuan	**3.12**	3.06	2.0	**2.87**	2.82	1.8	**348**	340	2.4
coal-fired power	**2.42**	2.39	1.3	**2.18**	2.17	0.5	**390**	375	4.0
hydropower	**0.70**	0.67	4.5	**0.69**	0.65	6.2	**214**	223	(4.0)
Ningxia	**4.68**	3.42	36.8	**4.21**	3.06	37.6	**226**	205	10.2
coal-fired power	**4.68**	3.42	36.8	**4.21**	3.06	37.6	**226**	205	10.2
Chongqing	**4.91**	5.71	(14.0)	**4.70**	5.45	(13.8)	**348**	343	1.5
coal-fired power	**4.91**	5.71	(14.0)	**4.70**	5.45	(13.8)	**348**	343	1.5
Beijing	**3.58**	4.01	(10.7)	**3.48**	3.91	(11.0)	**563**	509	10.6
gas-fired power	**3.58**	4.01	(10.7)	**3.48**	3.91	(11.0)	**563**	509	10.6
Shanxi	**4.55**	3.39	34.2	**4.25**	3.16	34.5	**229**	239	(4.2)
coal-fired power	**4.55**	3.39	34.2	**4.25**	3.16	34.5	**229**	239	(4.2)
Shandong	**10.78**	2.56	321.1	**10.26**	2.41	325.7	**318**	294	8.2
coal-fired power	**10.78**	2.56	321.1	**10.26**	2.41	325.7	**318**	294	8.2
Guangxi	**1.86**	0.21	785.7	**1.75**	0.19	821.1	**345**	328	5.2
coal-fired power	**1.86**	0.21	785.7	**1.75**	0.19	821.1	**345**	328	5.2
Overseas in total/ weighted average	**1.58**	1.64	(3.7)	**1.38**	1.43	(3.5)	**477**	476	0.2
Indonesia	**1.58**	1.64	(3.7)	**1.38**	1.43	(3.5)	**477**	476	0.2
coal-fired power	**1.58**	1.64	(3.7)	**1.38**	1.43	(3.5)	**477**	476	0.2
Total/weighted average	**262.87**	236.04	11.4	**246.25**	220.57	11.6	**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 57,855MW, which represented an increase of 2.8% as compared with the end of last year, accounting for 3.3% of the total installed capacity of power generation of China (being 1.777 billion KW[1]); among which, the total installed capacity of the coal-fired power generators is 55,984MW, accounting for 96.8% of the total installed capacity of the Group.

Unit: MW

Power type	Gross installed capacity as at 31 December 2016	Installed capacity increased during the reporting period	**Gross installed capacity as at 31 December 2017**
Coal-fired power	54,414	1,570	**55,984**
Wind power	16	–	**16**
Hydro power	125	–	**125**
Gas-fired power	1,730	–	**1,730**
Total	56,285	1,570	**57,855**

Company	**Location of generating unit**	**Newly added installed capacity** *MW*	**Remark**
Taishan Power	Taishan City, Guangzhou Province	30	Capacity expansion and upgrading
Zheneng Power	Ningbo City, Zhejiang Province	90	Capacity expansion and upgrading
Wanzhou Port and Power	Wanzhou District, Chongqing City	2×50	Capacity expansion and upgrading
Sanhe Power	Sanhe City, Hebei Province	30	Capacity expansion and upgrading
Guohua Ningdong	Lingwu City, Ningxia Hui Autonomous Region	2×660	Operation of new generating units
Total		1,570	/

[1] Data source: China Electricity Council

(4) Utilisation rate of power generation equipment

The average utilisation hours of coal-fired generators of the Group reached 4,683 hours for the year of 2017, representing a year-on-year increase of 255 hours and 405 hours above the national average utilisation hours (being 4,278 hours[1]) of thermal power equipment with capacity of 6,000KW and above. The efficiency of power generation improved constantly, and the power consumption rate of the power plant decreased by 0.20 percentage point as compared with the same period last year. As at the end of the reporting period, the installed capacity of circulating fluidised bed generating units of the Group reached 6,484MW, accounting for 11.6% of the installed capacity of the coal-fired generating units of the Group.

	Average utilisation hours *(Hour)*			Power consumption ratio of power plant *(%)*		
Power type	**2017**	2016	Change %	**2017**	2016	Change %
Coal-fired power	**4,683**	4,428	5.8	**5.72**	5.95	Decreased by 0.23 percentage point
Wind power	**1,160**	1,952	(40.6)	**0.90**	0.90	–
Hydro power	**5,618**	5,331	5.4	**0.25**	0.23	Increased by 0.02 percentage point
Gas-fired power	**3,059**	3,243	(5.7)	**2.08**	2.03	Increased by 0.05 percentage point
Weighted average	**4,634**	4,391	5.5	**5.64**	5.84	Decreased by 0.20 percentage point

(5) Environmental protection

Upholding the concept of green development, the power segment advanced the equipment upgrading and made remarkable achievement in prevention of air and water pollution. The total investment of energy saving and environmental protection amounted to RMB622 million, among which, investment in environmental protection amounted to RMB222 million. As at the end of the reporting period, the Group completed the desulfurisation and denitrification renovation for all of its national coal-fired power generators. 79 "ultra-low emission" coal-fired generators with total capacity of 46,150MW were either built or renovated, which accounted for 82.4% of the total installed capacity of coal-fired power generator of the Group. The average standard coal consumption for power sold of coal-fired power generators of the Group for the year was 311 g/kWh, representing a decrease of 4 g/kWh as compared with the same period last year.

[1] Data source: China Electricity Council

(6) Capitalised Expenses

In 2017, the capitalised expenses of the power segment of the Group were RMB15.23 billion, primarily used in projects including the Jawa-7 Coal-fired Power Project (2×1,050MW) in Indonesia, Jiangxi Jiujiang New Coal Reserve (Transit) and Power Generation Integration Project, Guohua Ningdong Coal-fired Power Generator Construction Project (2×660MW), Coal-fired Power Generator Construction Project (2×1,000MW) of Sichuan Shenhua Tianming Power Generation Company, and reformation of environmental protection technologies at power plants.

(7) Operating results

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

		2017	2016	Change %	Main reasons for changes
Revenue	RMB million	**79,511**	69,850	13.8	Year-on-year increase in power output dispatch and slight increase in average power tariffs
Cost of sales	RMB million	**68,388**	53,939	26.8	Increase in coal procurement price of coal-fired power plants and growth of power generation
Gross profit margin	%	**14.0**	22.8	Decreased by 8.8 percentage points	
Profit from operations	RMB million	**7,399**	11,689	(36.7)	
Profit margin from operations	%	**9.3**	16.7	Decreased by 7.4 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	**2017**	2016	Change %	**2017**	**Percentage to total costs of 2017** **%**	2016	Percentage to total costs of 2016 %	Change in 2017 over 2016 %
Coal-fired power	**75,383**	66,047	14.1	**63,813**	**95.7**	49,507	94.4	28.9
Wind power	**11**	18	(38.9)	**8**	**0.0**	9	0.0	(11.1)
Hydro power	**147**	145	1.4	**73**	**0.1**	66	0.1	10.6
Gas-fired power	**2,941**	2,936	0.2	**2,810**	**4.2**	2,890	5.5	(2.8)
Total	**78,482**	69,146	13.5	**66,704**	**100.0**	52,472	100.0	27.1

The Group's cost of sale of power is mainly comprised of such costs as raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation and other costs. The unit cost of power output dispatch of the Group in 2017 was RMB270.9/mWh (2016: RMB237.9/mWh), representing a year-on-year increase of 13.9%. The increase was mainly due to the increase in purchase costs of coal of coal-fired power plants.

The power segment consumed a total of 96.1 million tonnes of the China Shenhua's coal, accounting for 85.0% of the total thermal coal consumption (being 113.1 million tonnes).

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

	2017		2016		Change in
	Costs ***RMB million***	**Percentage** ***%***	Costs *RMB million*	Percentage *%*	costs *%*
Raw materials, fuel and power	**46,008**	**72.1**	31,996	64.7	43.8
Personnel expenses	**3,939**	**6.2**	3,667	7.4	7.4
Repairs and maintenance	**2,706**	**4.2**	2,645	5.3	2.3
Depreciation and amortisation	**9,066**	**14.2**	8,959	18.1	1.2
Others	**2,094**	**3.3**	2,240	4.5	(6.5)
Total cost of sale of power of coal-fired power plant	**63,813**	**100.0**	49,507	100.0	28.9

3. Railway segment

(1) Overview of production and operations

Amidst strong demands in the coal market and the restrictions to road transportation in 2017, the railway segment optimised transportation units and adopted multiple measures to ensure integrated transportation. It improved the transportation capacity of mainlines including Shouhuang and Shenshuo railways by purchasing high-powered locomotives and C80 vehicles and increasing the routes of 10,000 tonne and 20,000 tonne trains. The railway segment established more loading stations and loading points, developed reverse transportation and non-coal transportation market, and put circular trains into service. With such measures, the segment recorded significant increase in transportation capacity as compared with the same period of last year and the utilization rate of the existing capacity of Bazhun, Zhunchi railways and other lines was further improved. In 2017, the transportation turnover of self-owned railways reached 273.0 billion tonne km, representing a year-on-year growth of 11.6% and reaching a record high level.

While maintaining the integrated transportation, the railway segment steadily promoted the construction of macroscopic logistic system and the third-party services, and made great progress in such fields. In 2017, the turnover of cargo transportation offered to external customers in the railway segment was 29.4 billion tonne km (2016: 21.8 billion tonne km), representing a year-on-year increase of 34.9%. The revenue generated from transportation services offered to external customers amounted to RMB5,615 million (2016: RMB4,174 million), representing a year-on-year increase of 34.5% and accounting for 14.9% of total revenue of the railway segment (2016: 12.4%).

(2) Progress of projects

During the reporting period, the construction work of Huangda Railway continued to move forward. The main structure of Extra-Large Bridge crossing the Yellow River, which is a key segment of the project, has completed construction. The railway in Shandong section was under laying and erecting, and the railway in Hebei section in the preliminary construction stage continued to move forward.

(3) Operating results

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

		2017	2016	Change %	Main reasons for changes
Revenue	RMB million	**37,586**	33,530	12.1	Growth in transportation volume of railways brought by the increase in coal sales volume of the Group and expansion of non-coal transportation services offered to external customers
Cost of sales	RMB million	**18,632**	17,350	7.4	Increase in transportation capacity of self-owned railways, resulting in increased personnel expenses and costs of fuel; Purchase of new vehicles, leading to increased costs for relevant depreciation and amortisation
Gross profit margin	%	**50.4**	48.3	Increased by 2.1 percentage points	
Profit from operations	RMB million	**17,675**	15,000	17.8	
Profit margin from operations	%	**47.0**	44.7	Increased by 2.3 percentage points	

In 2017, the revenue generated from the internal transportation services provided by the railway segment for the Group amounted to RMB31,971 million (2016: RMB29,356 million), representing a year-on-year increase of 8.9%. The unit transportation cost in the railway segment was RMB0.064/tonne km (2016: RMB0.067/tonne km), representing a year-on-year decrease of 4.5%, mainly due to the significant increase in transportation turnover of self-owned railways.

4. Port Segment

(1) *Overview of production and operations*

Despite the bad weather and other unfavourable factors in 2017, the port segment proactively maintained integrated operation, and the seaborne coal sales reached to peak. The throughput of Huanghua Port (including coal and oil products) stood above 200 million tonnes, and the port realised automatic operation of stacker-reclaimers, becoming the first coal port that realised storage yard automation across the country. The Phase IV of Huanghua Harbour Administration Company Project (with throughput of 55 million tonnes per year) was completed and accepted. While the Tianjin Coal Dock recorded steady growth of seaborne coal sales through improved management, Shenhua Zhuhai Coal Dock continued to make contribution to the integrated transportation as a transit base.

In 2017, the seaborne coal sales reached 258.2 million tonnes (2016: 226.4 million tonnes), representing a year-on-year growth of 14.0%, among which, the seaborne coal sales through self-owned ports was 227.8 million tonnes (2016: 201.3 million tonnes), representing a year-on-year increase of 13.2%.

(2) *Operating results*

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

		2017	2016	Change %	Main reasons for changes
Revenue	RMB million	**5,717**	5,040	13.4	Increase in seaborne coal sales through self-owned ports
Cost of sales	RMB million	**2,880**	2,523	14.1	Increase in related costs due to the expanded coal shipment
Gross profit margin	%	**49.6**	49.9	Decreased by 0.3 percentage point	
Profit from operations	RMB million	**2,529**	2,302	9.9	
Profit margin from operations	%	**44.2**	45.7	Decreased by 1.5 percentage points	

In 2017, the revenue generated from the internal transportation services provided by the port segment to the Group amounted to RMB4,929 million (2016: RMB4,465 million), representing a year-on-year increase of 10.4% and accounting for 86.2% (2016: 88.6%) of the revenue of the port segment. Costs of internal transportation services provided for the Group amounted to RMB2,349 million. The revenue generated from transportation services offered to external customers was RMB788 million (2016: RMB575 million), representing a year-on-year increase of 37.0%.

5. Shipping Segment

(1) Overview of production and operation

In 2017, faced with the increase of transportation demand in the coal market and the shortage of its own shipping capacity, the shipping segment of the Company increased the transport connection, refined the allocation of capacity and effectively implemented the "quasi-liner shipping" system to fully guarantee the integrated transport demand.

Shipping volume of the shipping segment amounted to 93.0 million tonnes (2016: 79.2 million tonnes), up 17.4% year-on-year; shipment turnover amounted to 80.4 billion tonnes nautical miles (2016: 63.0 billion tonnes nautical miles), representing a year-on-year increase of 27.6%.

(2) Operating results

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

		2017	2016	Change %	Main reasons for changes
Revenue	RMB million	**3,247**	2,112	53.7	Increase in shipping price in coastal markets amid an improving coal market; increase in shipping freight volume
Cost of sales	RMB million	**2,472**	1,707	44.8	Increase in shipping freight volume, the price rise of chartering leading to the increase of chartering costs, and the increase of fuel oil prices
Gross profit margin	%	**23.9**	19.2	Increased by 4.7 percentage points	
Profit from operations	RMB million	**661**	266	148.5	
Profit margin from operations	%	**20.4**	12.6	Increased by 7.8 percentage points	

In 2017, the unit transportation cost of the shipping segment was RMB0.031/tonne nautical mile (2016: RMB0.027/tonne nautical mile), representing a year-on-year growth of 14.8%, caused by the increase of chartering costs and fuel oil prices.

6. Coal Chemical Segment

(1) Overview of production and operations

The coal chemical segment of the Group comprises the coal-to-olefins project which was operated by 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 other minor byproducts include 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.

In 2017, the coal-to-olefins project ran with a high capacity and a stable and long-periodic operation. The total output for olefins products reached 636,800 tonnes, hitting the highest record since its commercial operation in 2011.

In 2017, the coal chemical segment consumed 4.4 million tonnes of coal, up 10.0% from 4.0 million tonnes in the previous year. Fuel coal and feed coal used in the production of the coal-to-olefins project are all supplied by the Group. Both coal and products transportation use special railway lines to ensure the supply of raw materials and the delivery of products.

The sales of polyethylene and polypropylene products of the Group in 2017 is as follows:

	2017		2016		Change	
	Sales volume	Price	Sales volume	Price	Sales volume	Price
	Thousand tonnes	*RMB/ tonne*	*Thousand tonnes*	*RMB/ tonne*	*%*	*%*
Polyethylene	**324.6**	**7,373**	292.6	7,222	10.9	2.1
Polypropylene	**308.8**	**6,429**	282.1	5,958	9.5	7.9

In 2017, Baotou Coal Chemical Company's environmental protection investment was about RMB2.6 million, mainly for prevention and treatment of atmospheric and wastewater pollution. During the Reporting Period, the coal-to-olefin project met emission standards and there was no major environmental pollution accidents.

In July 2017, the Baotou-based coal-to-olefins upgrading and demonstration project (the phase II project) was approved by the Development and Reform Commission of Inner Mongolia Autonomous Region (內蒙古自治區發改委), with a planned capacity of 750,000 tonnes of new coal-to-olefin unit including 350,000 tonnes of polyethylene and 400,000 tonnes of polypropylene per year. The start date for the construction is yet to be determined.

(2) Analysis of operating results

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

		2017	2016	Change %	Main reasons for changes
Revenue	RMB million	**5,681**	4,831	17.6	Increase in the sales volume and price of olefins products
Cost of sales	RMB million	**4,968**	4,330	14.7	Increase in the production of olefin products and increase in the purchase price of coal
Gross profit margin	%	**12.6**	10.4	Increased by 2.2 percentage points	
Profit from operations	RMB million	**560**	254	120.5	
Profit margin from operations	%	**9.9**	5.3	Increased by 4.6 percentage points	

(3) Unit production cost of main products

	2017		2016		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	**327.1**	**5,861**	294.6	5,839	11.0	0.4
Polypropylene	**309.7**	**5,641**	284.0	5,373	9.0	5.0

(V) Regional operation analysis

Unit: RMB million

	2017	2016
Revenue from external transactions in domestic markets	**245,230**	179,859
Revenue from external transactions in overseas markets	**3,516**	3,268
Total	**248,746**	183,127

Note: Revenue from external transactions was classified based on the locations of the recipients of services or products.

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 PRC. In 2017, the revenue from external transactions in domestic markets was RMB245,230 million, accounting for 98.6% of the Group's operating revenue. Affected by factors such as the increase in sale and price of coal and as well as the growth of transportation business and electricity sales, revenue from external transactions in domestic markets increased by 36.3% year on year. Affected by factors such as the significant price rise in coal re-export trade, the revenue from external transactions in overseas markets increased by 7.6% year on year.

In 2017, the Group proactively respond to the Belt and Road Initiative by putting more efforts in international exploration. The operation of Guohua Sumsel EMM Coal-fired Power Project (Phase I) (2 × 150MW) in Indonesia was running steadily. The project was awarded "the best innovative power enterprises in 2017" (ranked the first by comprehensive capability) in 2017 of Indonesian power generation industry; The Jawa-7 Coal-fired Power Project (2 × 1,050MW) in Indonesia started construction in October 2017 and was expected to complete the construction and put into production in 2020. The shale gas project in Pennsylvania, the United States has produced gas volume of 212 million m^3 attributable to the proportionate interest of the Company, and the preliminary construction of 12 gas wells were still in progress. Australia's NSW government has withdrawn about 100 km^2 of black-land prospecting permits from the Watermark exploration area, giving Watermark an economic refund of 261.8 million Australian dollars; Watermark continued to push forward coal resource development in the remaining 95 km^2. Other external projects are in progress under the principle of stability and prudence.

(VI) Analysis on Investments

The equity investments of the Company in 2017 amounted to RMB9.780 billion (2016: RMB5.473 billion), representing a year-on-year increase of 78.7%. Equity investments are mainly used for capital increase in subsidiaries and associated companies including Jawa Company, Jiujiang Electric Power, Fujian Energy Company, Shenhua Information Technology Co., Ltd. and Shenhua Financial Leasing Company, as well as the new establishment of enterprises such as Jiangsu Power Sales Company and Shandong Power Sales Company.

For information on the principal business of major subsidiaries of the Company and the percentages of equity interest held by the Company, please refer to note 43 headed "Subsidiaries" to the financial statements of this report.

(1) Material investment in equity interest

☐ Applicable ✔ Not applicable

The Company and GD Power intended to make capital contribution to establish a joint venture with each of their possessed coal-fired power assets. As of the end of the reporting period, the transaction in relation to the establishment a joint venture has not been completed.

(2) Material investment in non-equity interest

☐ Applicable ✔ Not applicable

(3) Financial assets/liabilities at fair value

As at the end of the reporting period, the Group's financial assets/liabilities at fair value, the changes of which were included in current profits and losses, are classified as derivative financial assets, trust and wealth management products and derivative financial liabilities. The derivative financial assets are the thermal coal futures used to hedge the risk of coal price fluctuations, with the guaranteed deposit of RMB62 million at the end of 2017. The trust and wealth management products are held by Shenhua Finance Company with an initial investment cost of RMB50 million. The derivative financial liabilities are used to hedge some of the US dollar bonds by using derivative financial instruments such as forwards, swaps and options. As of the end of 2017, the balance of the Group's hedged US dollar liabilities amounted to RMB1,634 million.

As at the end of the reporting period, the Group's financial assets at fair value, the changes of which were excluded current profits and losses, are mainly wealth management products of security dealers with fixed terms bought by Shenhua Finance Company, with the initial investment cost of RMB100 million. Its fair value was calculated based on discounted cash flow method and the changes were charged to equity.

The changes of the fair value of the Group's financial assets/liabilities at fair value at the end of 2017 were set out as follows:

Unit: RMB Million

Name of Item	Balance at the beginning of the period	Balance at the end of the period	Change	Change of profit
Derivative financial assets	4	56	52	(1)
Trust and wealth management products	50	52	2	2
Derivative financial liabilities	0	(12)	(12)	(12)
Wealth management products of security dealers	0	105	105	0
Total	54	201	147	(11)

Please refer to note 37 headed "Financial Instruments" to the financial statements of this report for the detailed amount and change of financial assets/liabilities at fair value.

(VII) Disposal of material assets and equity interest

☐ Applicable ✔ Not applicable

(VIII) Analysis on major holding and associated companies

1. Major subsidiaries

Unit: RMB million

No.	Company	Registered capital	Total assets	Net assets	Net profit attributable to the equity holders of the parent company			
		As at 31 December 2017			2017	2016	Change %	Main reasons for changes
1	Shendong Coal Corporation	4,989	36,199	23,888	15,587	7,433	109.7	Increase in the sales and price of self-produced coal
2	Shuohuang Railway Company	5,880	40,576	31,245	7,596	6,487	17.1	
3	Zhunge'er Energy Company	7,102	35,691	28,147	3,283	1,278	156.9	Increase in coal price and transportation volume of Dahuai Railway
4	Jinjie Energy	2,278	9,470	7,772	3,014	1,469	105.2	Increase in coal price
5	Shenhua Trading Group	1,889	21,015	6,366	1,772	1,465	21.0	
6	Huanghua Harbour Administration Company	6,790	15,423	9,972	1,513	1,213	24.7	
7	Railway Wagon Company	4,803	21,766	6,438	1,079	840	28.5	
8	Yulin Shenhua Energy Co., Ltd.	1,000	6,427	4,080	1,021	289	253.3	Guojiawan Mine was put into production in late 2016 and its coal output increased significantly in 2017
9	Shenbao Energy Co., Ltd.	1,169	7,276	4,519	936	438	113.7	Increase in coal price
10	Shenhua Finance Company	5,000	77,367	8,087	858	790	8.6	

Note: (1) The financial information of the major subsidiaries disclosed in the above table (without assessment and adjustment before consolidation) was prepared in accordance with the Accounting Standards for Business Enterprises. The data have not been audited or reviewed.

(2) Shendong Coal Corporation recorded a revenue of RMB59,477 million and a profit from operations of RMB18,606 million in 2017.

(3) Shuohuang Railway Company recorded a revenue of RMB19,070 million and a profit from operations of RMB10,168 million in 2017.

Details regarding the Company's acquisition of subsidiaries are set out in investment in subsidiaries of note 43 headed "Subsidiaries" 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 solely be used for the credit business of China Shenhua and its subsidiaries and branches, and 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.

Shenhua Finance Company witnessed a comprehensive enhancement in its operating level and profitability by virtue of strengthening fund management capability and picking up pace in advancement of investment business, and was granted the grade A rating by the China National Association of Finance Companies for three consecutive years.

(1) Governance of Shenhua Finance Company

A. Board of directors

No.	Members of the board at the end of the reporting period	Position
1	Zhang Kehui	Chairman
2	Han Weiping	Executive director
3	Mei Xueyan	Executive director
4	Zhang Ying	Executive director
5	Xu Shancheng	Non-executive director
6	Du Shengli	Independent director
7	Zhang Donghui	Employee director

Dr. Zhang Kehui, the chairperson of Shenhua Finance Company, also serves concurrently as the chief financial officer of China Shenhua. For biographic details, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" of this report.

Mr. Han Weiping, executive director, has over 30 years of experience in financial management. He served as the deputy general manager of the financial department of Shenhua Group Corporation since 1996, and deputy general manager and general manager of Shenhua Real Estate Co Ltd. since 2001. He has served as the general manager (legal representative) of Shenhua Finance Company since 2014. He has years of extensive experience in management.

Ms. Mei Xueyan, executive director, has served as a director of Shenhua Finance Company since January 2005, the general manager of Shenhua Finance Company since July 2006, the secretary of Party committee of Shenhua Finance Company since August 2014 and the deputy secretary of Party committee (general manager level) of Shenhua Finance Company since January 2017. Ms. Mei Xueyan had worked on capital planning, finance investment and internal control at the headquarters of China Construction Bank for eight years.

Mr. Zhang Ying, executive director, joined Shenhua Finance Company in 2000 and has served as a deputy general manager of Shenhua Finance Company since November 2011. Working at Shenhua Finance Company for many years, Mr. Zhang Ying is familiar with the business and conditions of Shenhua Finance Company and possesses extensive management experience.

Mr. Xu Shancheng, non-executive director, has over 30 years of experience in financial management. He has served as the general manager of the finance department of Shenhua Group Corporation and the general manager of the finance department of China Shenhua since August 2016.

Mr. Du Shengli, independent director, is an associate professor of Tsinghua University School of Economics and Management. He has over 20 years of experience in capital operation management and corporate financial operation, group management control and performance evaluation, corporate governance and financial company management, state-owned assets supervision and state-owned enterprise operation, and 15 years of experience as independent director.

Ms. Zhang Donghui, employee director, participates in the decision-making of the Company through meetings of the board of directors.

The board of Shenhua Finance Company Limited operates in accordance with the Articles of Association of Shenhua Finance Company Limited. Any resolution passed at the board meetings of Shenhua Finance Company will only be valid if consent is obtained from two-thirds or more of directors present at the meeting, at which more than one-half of all directors shall be present.

In 2017, the board of Shenhua Finance Company held two meetings.

B. Board Committees

The board of Shenhua Finance Company currently has three board committees, namely the Related Party Transaction Control Committee, Risk Management Committee and Audit Committee.

(A) Related Party Transaction Control Committee

On 15 January 2012, the board of directors of Shenhua Finance Company set up the Related Party Transaction Control Committee, which is responsible for administration over the related party transactions of the company, including identification, statistics, forecasts, reporting, limit management and recommendations in respect of the related party transactions.

In 2017, the Related Party Control Transaction Committee held three meetings.

(B) Risk Management Committee

On 15 January 2012, the board of directors of Shenhua Finance Company set up the Risk Management Committee, which is responsible for assisting the board of Shenhua Finance Company to review the company's overall target of risk management, risk management policies, risk management procedures and internal control processes, and monitor and assess the risk management endeavors of relevant senior management members and the risk management function.

In 2017, the Risk Management Committee held one meeting.

(C) Audit Committee

On 10 November 2016, the board of directors of Shenhua Finance Company set up the audit committee of the board of directors, which is responsible for advising the internal audit of the company and providing advice and consultation for board decision-making.

In 2017, the Audit Committee held one meeting.

(2) Risk Management and Internal Control

A. Risk Management

In 2017, Shenhua Finance Company accomplished the following risk management works: ① completed case risk investigation to ensure compliance with the Company's operation; ② completed the regulatory inspection and rectification to promote the level of risk management refinement; ③ completed the construction of internal control system to realise the systematisation of internal control; ④ completed the internal control and self-assessment of Shenhua Finance Company, and organising relevant departments to formulate rectification measures; ⑤ completed quarterly risk monitoring work and giving early warning of risks; ⑥ improving risk management system and focusing on the system construction of risk management at implementation level; ⑦ the risk management committee did well in its duties and the risk management capacity was continually improved.

B. Internal Control

In 2017, Shenhua Finance Company made examination and evaluation on the internal control system, concluding that Shenhua Finance Company has a sound internal control environment, well-established internal control system and standardised business processes, strong information transmission and communication capabilities and internal supervision, and more reasonable and effective internal control system. Besides, the internal control system has been effectively carried out in Shenhua Finance Company. Through objective analysis of the status quo of the control system, Shenhua Finance Company timely improved to meet and adapt to their own development needs.

(3) Deposits and Loans of Shenhua Finance Company during the reporting period

A. Total deposits and loans at the end of the reporting period

Unit: RMB million

	As at 31 December 2017	As at 31 December 2016	Change %
Balance of deposits	**68,903**	46,603	47.9
Balance of loans	**30,403**	30,672	(0.9)
Of which: balance of guaranteed loans	**0**	0	/

B. Balance of deposits and borrowings of the top ten customers

(a) Balance of deposits of the top ten customers

Unit: RMB million

No.	**Name of customer**	**As at 31 December 2017**
1	China Shenhua Energy Company Limited	**48,828**
2	China Energy Investment Corporation Limited	**4,800**
3	China Shenhua Coal Liquefaction and Chemical Company Limited	**3,132**
4	Shenhua Guoneng Group Co., Ltd.	**2,203**
5	Shenhua Wuhai Energy Co., Ltd.	**1,689**
6	Guohua Energy Investment Co., Ltd.	**1,599**
7	Beijing Guohua Power Company Limited	**1,424**
8	China Shenhua International Construction Company Limited	**1,315**
9	Shenhua Xinjiang Energy Co., Ltd.	**1,009**
10	China Energy Conservation and Environmental Protection Group	**996**

Note: Data of all companies were consolidated except those of China Energy Investment Corporation Limited, which were based on the headquarters of the Company.

(b) Balance of loans of the top ten customers

Unit: RMB million

No.	Name of customer	As at 31 December 2017
1	Shenhua Ningxia Coal Industry Group Co., Ltd.	4,500
2	Shenhua Xinzhun Railway Co., Ltd.	3,490
3	Shenhua Zhunchi Railway Company Limited	2,900
4	State Grid Energy Hami Coal and Electricity Co., Ltd.	2,720
5	Shenhua Yili Energy Co., Ltd.	2,176
6	Shenhua Bayannur Energy Co., Ltd.	2,128
7	Shenhua Ganquan Railway Co., Ltd.	1,870
8	Shenhua Guoneng Jiaozuo Power Plant Company Limited	1,400
9	China Shenhua Coal Liquefaction and Chemical Company Limited	1,000
10	China Energy Investment Corporation Limited	1,000
11	Inner Mongolia Dayan Mining Industry Group Co., Ltd.	1,000

C. Approval of loans during the reporting period

Unit: RMB million

Item	2017
Amount of contracted loans	3,635
Amount of granted loans (including discounted assets)[Note]	3,005
Of which: amount of guaranteed loans (including discounted assets)[Note]	0
A mount of rejected loans	0

Note: The amount of granted loans refers to the balance as at 31 December 2017 of the loans granted in the current year in connection with the loans contracts signed in 2017.

(IX) Structured Vehicle Controlled by the Company

☐ Applicable ✔ Not applicable

(X) Environmental Policies and Performance

The Group is committed to the long-term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavors to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Please refer to the 2017 CSR Report of the Group for information in respect of environmental protection of the Company.

The Group attaches great importance to tackling climate change. In 2017, the Group carried out a number of work on climate change, mainly including improving the assessment system of annual operating performance for carbon emission, completing the establishment plan and project approval of carbon emission information system, launching the "100,000t level whole-flow demonstration project of capture and storage of carbon dioxide" operated by Jinjie Energy Plant, convening an energy conservation and environmental protection conference themed with "strategy transition from response to climate change to the development of clean energy", organising thermal power enterprises to start operation training on carbon trading, and preparing for taking part in the national carbon trading market.

(XI) Compliance with Relevant Laws and Regulations

So far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that are related to the business and operation of the Group in 2017. There was no material breach of or non-compliance with the applicable laws and regulations by the Group.

(XII) Relationship with Stakeholders

For details of remuneration and training of the Group's employees, please refer to the section headed "Directors, Supervisors, Senior Management and Employees".

The Group attaches great emphasis on good relationships with customers, suppliers and other business partners to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business updates with them when appropriate.

In 2017, there was no material and significant dispute between the Group and its customers, suppliers and other business partners.

(XIII) Subsequent Events

On 1 March 2018, the proposal about entering into the Supplemental Agreement on Non-Competition Undertaking Agreement that only takes effect when relevant conditions are met with CHNENERGY, the proposal about establishing joint venture and entering into Joint Venture Agreement through Asset Restructuring, the proposal about revising the annual caps of some continuing related/connected transactions in 2018 and 2019 were considered and approved at the ninth meeting of the fourth session of the Board. These proposals were submitted to the general meeting for consideration and approval. For details, please refer to the announcement of H share of the Company dated 1 March 2018 and the announcement of A share of the Company dated 2 March 2018.

III DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY[1]

(I) Competition and Development Trend in the Industry

1. Macro economy

2017 was an important year for implementing the "13th Five-Year Plan". Led by the Thought on Socialism with Chinese Characteristics for a New Era proposed by Xi Jinping and followed by supply-side structural reform as the main theme, the Chinese government pushed forward measures on structure optimisation and quality improvement, hence bringing stable and favourable development in national economy, which was better than expected. In 2017, the GDP increased by 6.9% year on year, up 0.2 percentage point over the previous year. The CPI increased by 1.6% year-on-year, down 0.4 percentage point over the previous year. The PPI rose 6.3% year on year.

In 2018, continuously upholding the general keynote of pursuing an increase amid a stable development and adhering to new development idea, the Chinese government will be in compliance with the requirements for high-quality development with concentration on the supply-side structural reform as its main theme, and coordinate various tasks including steady growth, adjusting structure, benefiting the people and forestalling risks to promote sustained and sound social and economic development. In 2018, the GDP growth will be around 6.5%, the rise in the CPI will be controlled at about 3.0%. The overall stable and improved macro-economy will facilitate a stable and increased demand for coal and electricity.

2. Market environment of the coal industry

(1) Thermal coal market in the PRC

Review of 2017

In 2017, with the deepening supply-side structural reform in the coal industry, progress was made in the structural adjustment and layout optimization in the coal industry and the domestic coal market recorded a tight supply-demand balance. The price fluctuated at a high level with the supply and demand and seasonal changes. As of December 31, the Bohai-Rim Steam-Coal (5,500 kcal) Price Index was RMB578/tonne, and the annual average price was RMB585.3/tonne, up 27.4% over the same period of last year.

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[1] This section is for reference only and does not constitute any investment advice. The Company has used its best endeavors to ensure the accuracy and reliability of information in this section, but does not assume any liability or provide any form of guarantee for the accuracy, completeness or validity of all or part of its content. If there is any error or omission, the Company does not assume any liability. The content in this section may contain certain forward-looking statements based on subjective assumptions and judgments of future political and economic developments; therefore there may exist uncertainties in these statements. The Company does not undertake any responsibility for updating the information or correcting any subsequent error that may appear. The opinions, estimates and other data set out herein can be amended or withdrawn without further notice. The data contained in this section 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.

	2017	2016	Year-on-year change %
Raw coal output *(million tonnes)*[1]	**3,520**	3,408	3.3
Coal import *(million tonnes)*	**270.9**	255.4	6.1
Coal transportation by railway *(million tonnes)*	**2,155**	1,902	13.3

In 2017, with the implementation of such measures as releasing advanced capacities, and controlling output and promoting the use of new types of energy, premium capacity was released in gathered pace and the production of raw coal demonstrated a restorative growth. Raw coal production in the PRC was 3.52 billion tonnes, representing a year-on-year increase of 3.3%, among which, Inner Mongolia accounted for 880 million tonnes, representing a year-on-year increase of 7.6%; Shanxi accounted for 850 million tonnes, representing a year-on-year increase of 3.5%; Shaanxi accounted for 570 million tonnes, representing a year-on-year increase of 10.6%.

The accumulated import volume of coal for 2017 amounted to 270 million tonnes, representing a year-on-year increase of 6.1%, demonstrating a significant decline over the last year.

Affected by such factors as the steady and favourable development of the macro-economy and weak hydropower output, upward trend was recorded in the coal demand nationwide and the coal consumption in the PRC in 2017 has increased by 0.4% over the same period of the previous year. The coal consumption in major downstream industries such as electricity and iron and steel increased year on year.

The coal transportation volume through railways in China was 2.16 billion tonnes during the year, representing a year-on-year increase of 13.3%. Coal outbound shipment through major ports in China was 730 million tonnes, representing a year-on-year increase of 12.9%.

The coal inventory kept stable with a slight decrease. As of the end of 2017, the coal inventories at major ports in northern areas, major coal enterprises and major power plants were 110 million tonnes in aggregate, representing a decrease of 9% compared with the beginning of the year.

Prospects for 2018

In 2018, China's economy will be on an upward trajectory with steady performance. It is estimated that coal demand will remain basically stable, and thermal coal demand will still feature seasonal fluctuations. With the supply-side structural reform in the coal industry continuously pushing ahead, around 150 million tonnes of coal capacity will be phased out in the whole year. With the further implementation of relevant policies including the release of high-quality capacity, the domestic coal capacity will gradually increase. Although it is still constrained by such factors as environmental protection and safety, the coal output is expected to increase in 2018.

[1] Source of data: Statistical Communiqué on the 2017 National Economic and Social Development by the National Bureau of Statistics of China

The import volume of coal will be basically stable in 2018 over the previous year.

It is expected that supply and demand in the coal market in the PRC will maintain a basic balance. The coal price will fluctuate somewhat with seasonal changes in supply and demand. Policies such as the national minimum inventory and the maximum inventory systems of coal will be carried out and the signing and cashing-out mechanism of the long-term contracts for coal and electricity enterprises will become mature, which will be conducive to the stability of the coal market and prices.

(2) *Thermal coal market in the Asia Pacific region*

Review of 2017

The global energy structure continues to push ahead the adjustment, and non-fossil energy maintains a rapid growth. Coal accounts for a decreased proportion[1] in the global primary energy consumption, but still sustains its leading position.

In 2017, coal demand increased amid a continual recovery in the global economy, and Asia was still the core region for coal consumption in the world. In India, thermal coal consumption continued to increase and steam coal imports remained in a large quantity. In 2017, the country imported 200 million tonnes of coal, the same as that from a year earlier. Japan imported 190 million tonnes of coal throughout the year, up 1.0% year-on-year; South Korea imported 150 million tonnes of coal, with a significant year-on-year increase of 10.2%.

The global coal supply saw an increase, but it remained tight as a whole. Indonesia, Australia and Russia were still the main exporters of steam coal. In 2017, Indonesia exported 390 million tonnes of coal, up 5.4% year-on-year. Russia exported 190 million tonnes of coal, up 12.4% year-on-year, hitting record high. Affected by weather change and other factors, the output and export of coal throughout the year in Australia were restrained, with the export volume of 380 million tonnes, down 3.4% year-on-year.

The international coal price featured a seasonal change with supply and demand relations, and was higher than that of last year. As of 31 December, the spot price of Newcastle NEWC steam coal rose from USD92.44/tonne early the year to USD103.88/tonne, with the annual average price increasing by 34% year on year.

[1] BP Statistical Review of World Energy (June 2017) shows that the percentage of coal for 2016 to global consumption of primary energy was 28.1%, representing a decrease of 1.1 percentage points as compared with 2016.

Prospects for 2018

In 2018, the global economy will continue to recover, which facilitates a stable demand for energy. China and India are still major consumers of coal. The coal demand in power industry in India will still keep strong. However, due to a rapid growth in its domestic output, the import volume may decrease. In countries and regions including South Korea and Vietnam, the construction of coal-fired power generation projects are fast undergoing, with coal demand and import volume expanding. In Japan, the operation recovery in some nuclear power units will restrain the increase in the import volume.

Coal output in Indonesia kept a high level and the export will continue to maintain a large scale. The increase in the output and export of coal in Australia is restrained. In Russia, affected by such factors as exchange rate and the decline in the domestic demand, the output and export of coal will continue to maintain high levels.

In 2018, it is expected that the global coal market will show a balance in supply and demand. Steam coal price will fluctuate with seasonal changes.

3. Market environment of the power industry

Review of 2017

In 2017, the power industry in the PRC featured a sufficient supply and increased demand.

The electricity demand in the PRC maintained a rapid growth. Affected by such factors as stable macroeconomic growth and high summer temperatures, the total electricity consumption was 6,307.7 billion kWh, representing an increase of 6.6% over the same period of last year. Among them, the electricity consumption in the secondary and tertiary industries increased by 5.6% and 10.7% respectively over the same period of last year, which were the main driving forces for the growth of electricity consumption in the whole society.

The power generation in the PRC maintained at a relatively high level. The power generation capacity of power plants above designated size was 6,275.8 billion kWh, representing a year-on-year increase of 5.7%. Among them, thermal power generated 4,611.5 billion kWh, representing a year-on-year increase of 4.6%; hydropower generated 1,081.9 billion kWh, representing a year-on-year increase of 3.4%. Affected by factors including increasing demand for electricity and the nationwide phase-out, halt construction and slow construction of coal-fired power generation capacity of 50 million KW, the utilisation hours of coal-fired generating units increased slightly year on year to 4,278 hours.

The power supply in the PRC is sufficient. The installed capacity of thermal power generation decreased in market share, while the installed capacity of non-fossil-fuel power generation increased rapidly. By the end of 2017, the installed capacity of power plants with capacity of 6,000KW and above was 1.78 billion KW in China, up 8.0% over the end of the previous year. Of which, thermal power installed capacity was 1.11 billion KW, up 4.3% over the end of the previous year; hydropower installed capacity was 0.34 billion KW, up 2.7%; wind power installed capacity was 0.16 billion KW, up 10.5% over the end of the previous year. Thermal power installed capacity accounted for 62.2% of the total installed capacity, down 1.8 percentage points from the previous year, while the contribution of non-fossil energy installed capacity increased by 2.1 percentage points.

There was a large difference in supply and demand among regions. The north region saw a tight supply and demand, the central region saw a basic balance, the east and south regions saw a slight surplus, and the northeast and northwest regions saw a big surplus.

In 2017, electricity-coal supply was a bit tight, and coal prices fluctuated at high levels, leading to a large increase in the generating cost of coal-based power enterprises and bigger number of power generation enterprises with losses.

Prospects for 2018

Taking such factors as the macroeconomic situation, electricity consumption and the replacement of electric energy in service industries and urban residents into consideration, the demand for electricity is expected to continue its growth.

The overall electricity supply and demand in the PRC is generally loose with surplus in some areas and tight supply and demand in some areas during peak hours. The estimated number of hours of utilisation of thermal power equipment throughout the year is basically the same as that of the previous year. The government regards the overcapacity reduction of coal power generation as the focus of supply-side structural reform, and plans to phase out and close coal-fired generating units with capacity of below 300,000KW which fail to meet the national standards. Coupled with the rapid development of non-fossil energy generating capacity, the share of thermal power installed capacity is estimated to continue to decline. As environmental requirements continue to tighten, the official launch of the national carbon emissions trading market will bring greater challenges for thermal power enterprises.

(II) Development Strategy of China Shenhua

The overall strategic objective of the controlling shareholder of the Company, CHNENERGY Group, is: Building a first-class comprehensive and competitive energy group in the world. Focusing on coal and power generation industries, the CHNENERGY Group will give full play to industrial synergies to promote transformation in quality, efficiency and motivation, in order to create a world-class enterprise with scientific development, advanced management, advanced science and technology, rich culture, responsible performance and excellent brand. The fundamental political principle is firmly establishing "four ideologies,"resolving "self-confidence in four aspects" and resolutely maintaining a high degree of consistency with the Party Central Committee with Comrade Xi Jinping as the core, the CHNENERGY Group will resolutely implement the decision-making of the Central Government to ensure the effective implementation of basic theory, lines and strategies of the Party in CHNENERGY Group. The six core ideologies are "innovation, efficiency, safety, green, honesty and happiness", and the nine strategies of corporate governance are strengthening the party building for building root and spirit of the CHNENERGY Group; focusing on main businesses for transformation and upgrading; deepening reform for improving mechanism; enhancing infrastructure construction for safety concerns; making innovation-driven production for a green development; enhancing management for improving quality and efficiency; optimising assets for forestalling risks; expand opening up for a win-win cooperation; creating harmony with people-oriented policy.

On this basis, China Shenhua will further optimise the development strategy of the Company.

(III) Business Targets for 2018

Item	Unit	Target of 2018 note	Actual amount in 2017	Increase/ (decrease) %
Commercial coal production	100 million tonnes	**2.9**	2.954	(1.8)
Coal sales	100 million tonnes	**4.3**	4.438	(3.1)
Power output dispatch	100 million kWh	**2,486**	2,462.5	1.0
Revenue	RMB100 million	**2,493**	2,487.46	0.2
Cost of sales	RMB100 million	**1,684**	1,604.60	4.9
Selling, general and administrative expenses and net finance costs	RMB100 million	**138**	132.79	3.9
Percentage change of unit production cost of the self-produced coal	/	**Year-on-year increase of no more than 5%**	Year-on-year decrease of 1.6%	/

Note: The business target of 2018 is based on the assets and business scope of the Group as at the end of 2017.

The above business targets are subject to factors including changes in scope of consolidated statements, risks, uncertainties and assumptions. The actual outcome may differ materially from these statements. Such statements do not constitute actual commitments to investors. Investors should be aware that undue reliance on or use of such information may lead to investment risks. The Company proposes to contribute certain coal-fired power assets held by the Company for the proposed establishment of the Joint Venture Company by the Company and GD Power, which is subject to the approval of the general meeting of the Company. For details, please refer to the H share announcement dated 1 March 2018 and A share announcement dated 2 March 2018 of the Company.

The explanation of conditions under which the Company's profit attributable to owners of the Company in the first quarter of 2018 is expected to reach a year-on-year change of 50% or above:

☐ Applicable ✔ Not applicable

(IV) Capital expenditures plans for 2018

Unit: RMB100 million

	Plan for 2018 Total amount	Plan for 2018 Of which: first batch	Actual amount in 2017
1. Coal segment	290	**24.0**	45.7
2. Power segment		**101.3**	152.3
3. Transportation segments		**48.7**	61.1
Of which: Railway		**44.8**	53.8
Port		**3.5**	7.2
Shipping		**0.4**	0.1
4. Coal chemical segment		**2.2**	1.1
5. Others		**–**	1.8
Total	**290**	**176.2**	262.0

Total capital expenditures of 2017 amounted to RMB26.20 billion, which were mainly used for (1) power segment: Jawa-7 Coal-fired Power Project (2 x 1,050MW) in Indonesia, Jiangxi Jiujiang coal reserve (transit) power generation integration project, Guohua Ningdong Coal-fired Power Generator Construction Project (2×660MW), Coal-fired Power Generator Construction Project (2×1,000MW) of Sichuan Shenhua Tianming Power Generation Company; (2) transportation segment: Huangda Railway Project; (3) coal segment: the construction of Haile Sihao Shipping Station, Guojiawan-based and Qinglongsi-based Coal Mines and Coal Preparation Plants, and the payment of mining rights.

Based on the principles of maintaining the strict limit of investment scale and the continuity of major construction projects, the Board approved total planned capital expenditures of 2018 of no more than RMB29 billion (exclusive of equity and asset acquisitions), and released plans in batches.

The first batch of planned capital expenditures of 2018 amounted to RMB17.62 billion. Regarding the capital expenditures for coal segment, the expenditures for maintaining production capacity, environmental protection and IT projects amounted to approximately RMB2.1 billion, the expenditures for equipment procurement amounted to approximately RMB270 million, and the expenditures approved for the construction and reconstruction of coal mines amounted to approximately RMB30 million. Regarding the capital expenditures for power segment, the expenditures for the construction of new projects and expansion projects (inclusive of equipment procurement) amounted to approximately RMB9.37 billion, and the expenditures for green technology reform of "ultra-low emission" of plants amounted to approximately RMB380 million. The capital expenditures for railway segment was mainly used in the construction of Huangda Railway, the expansion and transformation of Shenshuo Railway, the expansion of the traction power supply system of Shuohuang Railway and other renovation projects and equipment purchases.

The capital expenditure plans of the Group in 2018 are subject to the development of business plans (including potential acquisitions), progress of investment 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.

(V) Major risks faced and countermeasures

Investors should be aware that although the Company has reviewed and listed 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.

1. Risk of macroeconomic fluctuations

The industry in which the Group operates is closely correlated to the prosperity of the national economy. The GDP of China in 2017 grew by 6.9% year on year. The growth is expected to be around 6.5% in 2018. The country has made efforts to promote supply-side structural reforms, has continuously made innovations, improved macroeconomic regulatory and vigorously cultivated new momentum for development. The reform and innovation in the energy sector will have a significant impact on the Group's development strategy.

To cope with the risk of macroeconomic fluctuations, the Group will further strengthen the studies on relevant industrial trends, proactively promote supply-side structural reforms, make great efforts to push scientific innovation and progress, and implement strategies of green energy.

2. Risk of market competition

In 2017, the domestic coal market saw a tight supply-demand balance. The price fluctuated at a high level with change in supply and demand and seasonal changes. In 2018, it is expected that the global coal market will show a balance in supply and demand. The total electricity consumption in 2017 was 6.3 trillion kWh, representing an increase of 6.6% over the same period of previous year. It is estimated that the future market-oriented transaction power will continue to grow, and the proportion to electricity consumption in the whole society will further increase. The country increased the construction of cross-provincial coal transportation channels. The coal transportation capacity will be gradually released.

In response to the risks of market competition, the Group will improve the accuracy of the pre-judgment to coal market and expand the market to arrange sales in a balanced manner. It will also further conduct quality improvement and efficiency work in the power industry and conduct risk pre-control, safety production and trading in the power market in accordance with laws and regulations.

3. **Risk of changes in industry policies**

The Group's business activities are subject to the industrial regulatory policies in China. In 2017, the country implemented such policies as stopping and delaying the construction of coal-fired power projects and supporting mergers and acquisitions in the coal industry. In 2018, it will continue to deepen the supply-side structural reform. It plan to phase out around 150 million tonnes of coal capacity, eliminate and close coal-fired generating units with capacity of below 300,000KW which fail to meet the national standards. The above policies may objectively affect the approval and operation of newly-built expansion projects and the reform of the management model of the Company.

To cope with the risk of changes in industry policies, the Group will strengthen its research on the latest industry policies and regulations in the PRC and promote industrial upgrading and structural adjustment through a rational investment portfolio across the business segments, further regulating on the construction order of coal and power projects and increasing the investment in environment.

4. **Risk of rising costs**

As the mining process proceeds further and production conditions become increasingly complicated, the Group's corporate mining cost may increase gradually. Furthermore, a number of factors, including the long-term price increase of productive resources, increase in resource and environmental constraints and changes in fiscal and taxation policies, may lead to an increase in the Group's costs.

To cope with the risk of rising costs, the Group will establish the value-creation concept and strengthen the strategic cost control; optimise the cost accountability system; strengthen taxation planning; improve the preparation of rolling budget to refine cost management and improve the quality of cost control.

5. **Risk of environmental protection**

The national policies on energy-saving and environmental protection have been further tightened. Following the promulgation of a series of policies on pollutants, greenhouse gas emission and energy-saving and emission reduction, the constraints on energy-saving, carbon reduction and environmental protection are further imposed on the Group.

The Group focuses on the development strategy of clean energy. With the efficient development, use and conversion of clean coal as the core, it spares no effort in constructing ecological civilisation. The Company actively carries out the prevention and control of air and water pollution and upgrading of energy-saving and environmental protection in the Beijing-Tianjin-Hebei region and its surrounding areas. The Company is also building the brand image of ultra-low emissions in coal power. It further improves the environmental risk pre-control management system and strengthens the identification, remediation of potential issues and environmental emergency management in order to achieve energy-saving and emission reduction targets as well as to prevent severe environmental pollution incidents.

The management of the Group is of the view that other than those accounted for in the financial statements, there are currently no environmental liability that may have material adverse effect on the Group's financial position.

6. Risks of production safety for coal mines

The Group has established the safety production targets of "preventing serious work-related accidents and general accidents, striving to reduce cases of minor and serious injuries, creating long-term mechanism for production and work safety". Although the Group has been sustaining stable performance in safe production for its coal mines, there are uncertainties in the course of safe production.

To cope with the risks of production safety for coal mines, the Group will strengthen various areas in respect of the implementation of its safety risk prevention and control management system, inspections and treatments and assessment of significant risks, reinforcement of safety production training and emergency rescue management, all-round promotion of safety management audit and consolidation of safety production fundamentals.

7. Risk of integrated operations

The Group's advantages in integrated coal mines, power, transportation and coal chemical operations come along with the risks arising from the interruption of individual parts of the entire integrated chain. In case of poor organisation or coordination or a discontinuation of any link, the balance and high efficiency of integrated organisation and operations will be affected and the impact may adversely affect the Group's business results.

To cope with the risk of integrated operations, the Group will take an array of measures based on production safety, including scientific scheduling and plan management, improve railway collection and distribution system, strengthen the coordination of power grid, and strengthen the operation management of production equipment, with an aim at balanced production and uninterrupted integrated operations to maximise its competitiveness.

8. Risk of international operations

Due to the complex economic, social, political and religious conditions in the globe and the fluctuations in exchange rates, the risk of investments in different countries varies significantly. Given the intensified trade conflicts among certain countries that may result in ups and downs as well as fluctuation in the smooth operation of international trades and market and economic stability in the future together with the highly competitive energy market worldwide, the uncertainties in the Group's international operations may have an impact on its overseas business.

To cope with the risk of international operations, the Group will conscientiously carry out overseas resource evaluation and project assessment based on sound information analysis prior to making any decision on overseas project investment so as to ensure economic feasibility. Furthermore, the Company will strengthen the cultivation and introduction of interdisciplinary talents to lay a solid cornerstone for its "Going Overseas" strategy.

9. Risk of natural disasters

The production and operation activities of the Group may suffer some losses affected by factors including natural disasters or bad weather.

In order to cope with the risks arising from natural disasters, the Group will further strengthen early warnings of major natural disasters, formulate emergency plans, allocate necessary resources and perform relevant emergency drills to ensure that the impacts of natural disasters can be minimised.

The Group carries out centralised management of commercial property insurance with ongoing review and assessment of risks and risk portfolio. Necessary and appropriate adjustments which are in line with our needs and practices of the insurance industry in China have been made to the insurance strategies and actions as safeguard against losses arising from various exposures.

IV. REASONS AND CASES OF FAILURE TO DISCLOSE PURSUANT TO GUIDELINES BY THE COMPANY DUE TO NON-APPLICATION OF GUIDELINES OR SPECIAL REASONS

☐ Applicable ✔ Not applicable

V. PERFORMANCE OF THE BOARD AND ITS SPECIAL COMMITTEES

Please refer to the section headed "Corporate Governance and Corporate Governance Report" of this report.

VI. OTHERS

Please see the section headed "Significant Events" for donations, dividends and management contracts; please see the section headed "Directors, Supervisors, Senior Management and Employees" for permitted indemnity provision, interests of directors and supervisors in significant transactions, arrangements or contracts.

Section VI Significant Events

I. PROFIT DISTRIBUTION PLAN

(I) Formulation, implementation or adjustment of cash dividend policy

In accordance with the requirements of the relevant laws and regulations and the Articles of Association, the profit distribution policy of the Company shall maintain continuity and stability and emphasize on achieving reasonable returns for investors. The Company shall give priority to profit distribution in cash dividends. The profit distribution policy of the Company complies with the Guideline on Encouragement of Cash Dividend Distribution of Listed Companies announced by the CSRC.

Pursuant to the Articles of Association, the profit distribution of the Company shall be made based on the profit for the year attributable to equity holders of the Company in the consolidated financial statements prepared under the Accounting Standards for Business Enterprises and the International Financial Reporting Standards, whichever is lower. Annual profit distribution in cash shall be no less than 35% of the net profit for the year attributable to equity holders of the Company subject to the relevant conditions.

(II) Profit distribution scheme/plan

1. Profit distribution plan for the recent three years (including the reporting period)

	Dividend per 10 shares (inclusive of tax)	Amount of cash dividend (inclusive of tax)	Net profit attributable to equity holders of the Company in the consolidated financial statements of the respective dividend year in accordance with Accounting Standards for Business Enterprises	Percentage to the net profit attributable to equity holders of the Company in the consolidated financial statements
	RMB	*RMB million*	*RMB million*	*%*
Final dividend for year 2017 (Proposed)	9.1	18,100	45,037	40.2
Distribution for Special dividend in the year 2017	25.1	49,923	N/A	N/A
Final dividend for year 2016	4.6	9,149	22,712	40.3
Final dividend for year 2015	3.2	6,365	16,144	39.4

Net profit for the year attributable to equity holders of the Company for 2017 under the Accounting Standards for Business Enterprises amounted to RMB45,037 million, with basic earnings per share of RMB2.264/share; profit for the year attributable to equity holders of the Company under the International Financial Reporting Standards amounted to RMB47,795 million, with basic earnings per share of RMB2.403/share. As at 31 December 2017, the retained earnings available for distribution to shareholders of the Company under the Accounting Standards for Business Enterprises amounted to RMB124,576 million.

The Board recommends the payment of a final dividend for year 2017 in cash of RMB0.91 per share (inclusive of tax) on the basis of the total share capital of 19,889,620,455 shares of the Company as at 31 December 2017, totaling RMB18,100 million (inclusive of tax), which represents 40.2% of the net profit for the year attributable to equity holders of the Company under the Accounting Standards for Business Enterprises and 37.9% of the profit for the year attributable to equity holders of the Company under the International Financial Reporting Standards.

2. The above final dividend plan for year 2017 is in compliance with the requirement of the Articles of Association and endorsed by the independent directors and approved by the Board. When recommending the plan for year 2017, the Board has attended to and considered the opinions and concerns of the shareholders of the Company, in particular the minority shareholders. The Company will hold the 2017 annual general meeting on Friday, 22 June 2018 to consider the relevant resolutions, including the above dividend plans as proposed by the Board.

3. The final dividend for year 2017, which is denominated and declared in RMB, will be paid in RMB to holders of the Company's A shares, including holders of the Company's A shares through the Northbound Trading Link of the Shanghai-Hong Kong Stock Connect (hereinafter referred to as the "Northbound Shareholders") and holders of the Company's H shares through the Southbound Trading Link (including Shanghai and Shenzhen markets, hereinafter referred to as the "Southbound Shareholders"). Dividends to holders of the Company's H shares, except the Southbound Shareholders, are paid in HKD. The dividend paid in HKD is calculated according to the exchange rate based on the average benchmark rate of RMB against HKD, as published by the Bank of China five business days preceding the date of declaration of such dividend.

In accordance with the preliminary arrangement of profit distribution plan for year 2017 and annual general meeting of the Company, the final dividend for year 2017 for the Company's H shareholders are estimated to be distributed on or about 3 August 2018. H shareholders are advised to claim the dividends distributed by the Company in time.

4. **Pursuant to the Articles of Association:**

(1) After the Shanghai Stock Exchange is closed in the afternoon on Wednesday, 23 May 2018, the shareholders of A shares of the Company (including the Northbound Shareholders) and the proxies of shareholders as registered in the China Securities Depository and Clearing Corporation Limited Shanghai Branch are entitled to attend and vote at the 2017 annual general meeting of the Company;

(2) According to the relevant regulations of China Securities Depository and Clearing Corporation Limited Shanghai Branch and market practice adopted for final dividend distribution for A shares, the Company will publish a separate announcement in respect of the distribution of final dividend for year 2017 to holders of A shares (including the Northbound Shareholders) after the 2017 annual general meeting to determine the record date, ex-rights date and dividend distribution date for the distribution of final dividend for year 2017 to holders of A shares.

5. The arrangement of temporary closure of the register of members of H shares of the Company:

		Temporary closure of the register of members			
No	**Corresponding Rights**	**First Day (inclusive)**	**Last Day (inclusive)**	**The last day for registering members**	**The Company's share registrar for H shares**
1	Attending and voting at the 2017 annual general meeting	23 May 2018 (Wednesday)	22 June 2018 (Friday)	21 May 2018 (Monday) 4:30 p.m.[Note]	Computershare Hong Kong Investor Services Limited
2	Entitled to the final dividend for year 2017	30 June 2018 (Saturday)	6 July 2018 (Friday)	29 June 2018 (Friday) 4:30 p.m.	Computershare Hong Kong Investor Services Limited

Note: 22 May 2018 is a public holiday of Hong Kong.

6. In accordance with the Enterprise Income Tax Law of the PRC and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H shares of the Company when distributing final dividends. The Company shall withhold and pay enterprise income tax in respect of the final dividend for year 2017 of the Company for the non-resident enterprise shareholders whose name would appear on the register of members for H shares of the Company on 6 July 2018.

7. According to Guo Shui Han [2011] No. 348 issued by the State Administration of Taxation, the Company shall withhold and pay individual income tax for dividend payable to the individual shareholders of H shares. The individual shareholders of H shares are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements entered into between their countries of residence and China or the tax arrangements between mainland China and Hong Kong (Macau).

If the individual shareholders of the H shares who are Hong Kong or Macau residents or residents of the countries which have an agreed tax rate of 10% with China, the Company shall withhold individual income tax at a rate of 10%. If the individual shareholders of the H shares are residents of countries which have an agreed tax rate of less than 10% with China, the Company shall withhold individual income tax on behalf of them in accordance with relevant provisions required by the Announcement of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-resident Taxpayers under Tax Treaties (No. 60 Announcement of the State Administration of Taxation in 2015). If the individual shareholders of the H shares are residents of countries which have an agreed tax rate of over 10% but less than 20% with China, the Company shall withhold the individual income tax at the agreed actual rate. In case the individual shareholders of the H shares are residents of countries which have not entered into any tax agreement with China, or the agreed tax rate with China is 20% or otherwise, the Company shall withhold the individual income tax at a rate of 20%.

The Company shall use the registered address (hereinafter referred to as "registered address") as recorded in the register of members of H shares on 6 July 2018 as the criterion in determining the residence of the individual shareholders of H shares who are entitled to receive the final dividend for year 2017 of the Company, and withhold and pay individual income tax accordingly. If the residence of the individual shareholders of H shares is inconsistent with the registered address, such shareholders shall notify the Company's share registrar for H shares at or before 4:30 p.m. on 29 June 2018 with the relevant evidence at Computershare Hong Kong

Investor Services Limited of 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

8. With respect to the Southbound Shareholders, according to the relevant requirements of China Securities Depository and Clearing Corporation Limited, China Securities Depository and Clearing Corporation Limited Shanghai Branch and Shenzhen Branch shall receive cash dividends distributed by the Company as the nominee of the Southbound Shareholders for Shanghai market and Shenzhen market, respectively and distribute such cash dividends to the relevant Southbound Shareholders through its depository and clearing system.

According to the relevant provisions under the "Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Programme" (Cai Shui [2014] No. 81) and the "Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Programme" (Cai Shui [2016] No. 127), the Company shall withhold individual income tax at the rate of 20% with respect to dividends received by Mainland individual investors for investing in H-shares listed in Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. The Company is not required to withhold income tax on dividends derived by Mainland enterprise investors, and such enterprises shall report the income and make tax payment by themselves. The record date and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as that of the Company's shareholders of H shares.

9. The Company assumes no responsibility arising from any delayed or inaccurate determination of the status of the shareholders or any dispute over the mechanism of withholding. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the Company's H shares.

II. PERFORMANCE OF COMMITMENTS

Background of Commitment	Type of Commitment	Covenantor	Commitment	Date and Duration of Commitment	Any Time Limit for Commitment	Timely and Strict Performance of Commitment	Detailed reasons shall be specified if commitment is not fulfilled in time	Further steps shall be specified if commitment is not fulfilled in time
Commitment in relation to initial public offering	Non-competition undertaking	CHNENERGY (originally Shenhua Group Corporation)	The Company and Shenhua Group Corporation entered into a "Non-competition Agreement" on 24 May 2005. Pursuant to such agreement, Shenhua Group Corporation has committed not to compete with the Company in respect of the Company's principal businesses whether inside or outside of the PRC, and granted the Company priority trading and pre-emptive right to acquire and be transferred from Shenhua Group Corporation any business opportunities and assets which may pose potential competition.	24 May 2005, long-term	Yes	Yes, in process	N/A	N/A

To further formulate the performance of the Non-competition Agreement, the Resolution on the Performance of Non-competition Undertaking was approved at the 45th meeting of the second session of the Board on 27 June 2014 and the Announcement in relation to the Performance of Non-competition Undertaking was disclosed to public. The Company disclosed that it will commence the acquisition of 14 assets of Shenhua Group and its subsidiaries before 30 June 2019 (submitting the asset acquisition proposal to the internal competent authorities of China Shenhua for approval procedure); Shareholders are advised to pay attention to the risks involving the change in scope of acquisition, third-party statutory right of first refusal and that the commitment may fail to be fulfilled or fail to be performed on time due to objective reasons. For details, please refer to the H shares announcement dated 27 June 2014 and the A shares announcement of the Company dated 28 June 2014. The Company completed acquisitions of Ningdong Power, Xuzhou Power and Zhoushan Power in 2015. The Company did not make any acquisitions of assets in 2017.

On 1 March 2018, the "Resolution regarding the Supplemental Agreement to the Non-Competition Undertaking Agreement that only takes effect when relevant conditions are met with CHNENERGY" was reviewed and passed at the ninth meeting of the fourth session of the Board of the Company. In respect of the proposed signing of the "Supplemental Agreement to the Non-Competition Undertaking Agreement" between China Shenhua and CHNENERGY, is pending approval at the general meeting of the Company. For details, please refer to the H share announcement of the Company dated 1 March 2018 and the A shares announcement of the Company dated 2 March 2018.

III. APPROPRIATION OF FUNDS AND PROGRESS OF THE COLLECTION DURING THE REPORTING PERIOD

☐ Applicable ✔ Not applicable

IV. AUDIT OPINIONS AND OTHER EXPLANATIONS

(I) Explanation from the board and the supervisory committee for the "non-standard audit report" issued by the auditors

☐ Applicable ✔ Not applicable

(II) The Company's analysis and explanation about the reasons for and impact of changes in accounting policies, accounting estimates or accounting method

☐ Applicable ✔ Not applicable

(III) The Company's analysis and explanation about the reasons for and impact of correction to material previous errors

☐ Applicable ✔ Not applicable

V. APPOINTMENT AND REMOVAL OF AUDITORS

Name of Domestic Auditors of the Company	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration of Domestic Auditors of the Company *(RMB million)*	9.2
Term of Auditing of Domestic Auditors of the Company *(year)*	5
Name of International Auditors of the Company	Deloitte Touche Tohmatsu
Remuneration of International Auditors of the Company *(RMB million)*	1.5
Term of Auditing of International Auditors of the Company *(year)*	5

On 23 June 2017, Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu were appointed as the domestic and international auditors of the Company respectively for year 2017 at the Company's 2016 annual general meeting. The Company did not change its accounting firms during each of the past three years.

	Name	Remuneration
Internal Control Auditors	Deloitte Touche Tohmatsu Certified Public Accountants LLP	RMB1.59 million

The above auditors also served as the external auditors of several subsidiaries of the Company and their remuneration relating to audit services amounted to approximately RMB1.39 million during the reporting period. The above auditors did not provide non-audit services to the Company and its controlled subsidiaries during the reporting period.

VI. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

☐ Applicable ✔ Not applicable

VII. MATERIAL LITIGATION AND ARBITRATION

☐ Applicable ✔ Not applicable

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

As at 31 December 2017, the Group was the defendant or the party of certain non-material litigations. The management of the Company believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

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

☐ Applicable ✔ Not applicable

IX. EXPLANATION FOR CREDIT OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER

☐ Applicable ✔ Not applicable

Upon self-investigation, as at the end of the reporting period, the Company did not find that the Company and CHNENERGY, the controlling shareholder, had failed to fulfill the judgment of court or major case of dishonesty in relatively large amount of outstanding debt such as debit interests owed to external financial institutions.

X. THE SHARE OPTIONS INCENTIVE PLAN, EMPLOYMENT STOCK OWNERSHIP SCHEME OR OTHER EMPLOYEE INCENTIVE SITUATION OF THE COMPANY AND THEIR IMPACTS

☐ Applicable ✔ Not applicable

XI. MATERIAL RELATED/CONNECTED TRANSACTIONS

(I) Related/Connected transactions during the daily operation

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

As at the end of the reporting period, continuing related/connected transaction agreements entered into by the Company include:

1. **Non-exempt continuing related/connected transactions between the Group and CHNENERGY Group**

   The related/connected transactions are beneficial for the Company to obtain a reliable and quality-assured provision of materials and services, lower operation risks and costs; and Shenhua Finance Company, over which the Company has controls, provides financial services to the companies under the Group and CHNENERGY Group so that it can fully leverage on its functions as an internal financing platform and capital management platform, and to further control risks and increase income.

   A. Mutual Coal Supply Agreement

   On 24 March 2016, the Company entered into the Mutual Coal Supply Agreement with Shenhua Group Corporation. The Mutual Coal Supply Agreement is effective from 1 January 2017 and will expire on 31 December 2019. Pursuant to the Mutual Coal Supply Agreement, the Group and CHNENERGY Group mutually sells and supplies various types of coal.

   The supply price under the Mutual Coal Supply Agreement is the product of the unit price RMB/tonne multiplied by the actual weight. The unit price of coal shall be determined by both parties after arm's length negotiations with reference to the then market price and conditions and the following factors, provided that the transaction terms shall not be less favourable than those provided by independent third parties:

   (1) The national industrial policy as well as industry and market conditions in the PRC;

   (2) The specified guidelines issued by NDRC setting out the coal purchase prices (if any);

   (3) The current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with same quality that is offered to or offered by independent third parties under normal market conditions and normal commercial terms in the same or nearby regions. For local spot coal price, reference is generally made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on China Coal Market Website (www.cctd.com.cn) organised by China Coal Transportation & Sale Society in the PRC; (ii) the sale price of local large-scale coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of a few enterprises with comparable quality, quantity and location (if any). If any price quotation(s) of one or more other enterprises are obtained, the Company will adopt the most favourable price obtained;

   (4) The quality of the coal (including the estimated calorific value of coal as required by different coal-fired power generating units);

   (5) The quantity of coal; and

   (6) The transportation fees.

B. *Mutual Supplies and Services Agreement*

On 24 March 2016, the Company entered into the Mutual Supplies and Services Agreement with Shenhua Group Corporation. The Mutual Supplies and Services Agreement is effective from 1 January 2017 and will expire on 31 December 2019. Pursuant to the Mutual Supplies and Services Agreement, the Group and CHNENERGY Group mutually sells and provides various types of products and services.

The pricing of the products and services provided under the new Mutual Supplies and Services Agreement shall be determined in accordance with the general principles and in the order of the section below:

(a) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price;

(b) Tender and bidding price: where tender and bidding process is necessary under applicable laws and regulations, the price will be ultimately determined in accordance with the tender and bidding process;

(c) Market price: The price will be determined as same as or similar to products or services provided by an independent third party during its ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third parties for the same period when determining whether the price for any product or service transaction under this Agreement is the market price; and

(d) Agreed price: to be determined by adding a reasonable profit margin over a reasonable cost. The management shall consider at least two comparable deals with independent third parties for the same period when determining the reasonable profit of any product or service transaction under this Agreement.

In addition to the above, for certain types of product or service, specific pricing policy is adopted as follows:

(a) Rail transportation: price prescribed by NDRC or other related government competent authorities;

(b) Construction: where tender and bidding process is necessary under applicable laws and regulations, the price ultimately determined in accordance with the tender and bidding process; where tender and bidding process is not necessary under applicable laws, the market price;

(c) Oil products: government-guided price;

(d) Alternative power generation: price prescribed by NDRC or other related government competent authorities;

(e) Hardware and software equipment and related services: market price (including tender and bidding price);

(f) Chemical products: market price;

(g) Production equipment and spare parts, office products: market price;

(h) Tendering services: price prescribed by NDRC;

(i) Technical consulting services: agreed price with a profit margin of approximately 10%;

(j) Information technology services: The parties negotiate and agree on the service price within the scope of budget, which is reviewed by professional institution(s) with pricing reviewing qualification according to relevant national and industrial rules and regulations on construction pricing, pricing mechanism and fee standards, with reference to the market customs of the information technology industry, actual standards and market price, taking into account the actual condition of the Company's information technology construction;

(k) Logistics and support services and training services: agreed price (cost plus a profit margin of approximately 5%);

(l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%); and

(m) Various daily administrative services to the headquarters of CHNENERGY (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

C. Financial Services Agreement

On 24 March 2016, the Company entered into the Financial Services Agreement with Shenhua Group Corporation. The Financial Services Agreement is effective from 1 January 2017 and will expire on 31 December 2019. In accordance with the Financial Services Agreement, the Company provided relevant financial services to CHNENERGY Group through Shenhua Finance Company.

The pricing policy of the Financial Services Agreement is as follows:

(1) the interest rates for deposits placed by original Members of Shenhua Group with Shenhua Finance Company are in compliance with relevant regulations of the PBOC and with reference to the benchmark deposit rate (if any) regularly promulgated by the PBOC, interest rates prescribed by the major commercial banks to original Members of Shenhua Group for the same type of deposit and determined on normal commercial terms;

(2) the interest rates for loans granted by Shenhua Finance Company to original Members of Shenhua Group are in compliance with relevant regulations of the PBOC and with reference to the benchmark lending rate (if any) regularly promulgated by the PBOC, interest rates prescribed by the major commercial banks to original Members of Shenhua Group for the same type of loan and determined on normal commercial terms; and

(3) the service fees charged by Shenhua Finance Company for the provision of the financial services to original Members of Shenhua Group are determined according to the fee rates fixed by the PBOC or the CBRC, and if such fixed fee rates are not available, the service fees are with reference to the fee rates charged by major commercial banks for comparable services provided to original Members of Shenhua Group and determined on normal commercial terms.

2. Non-exempt continuing related/connected transactions between the Group and other parties

D. Transportation Service Framework Agreement between the Company and Taiyuan Railway Bureau

Taiyuan Railway Bureau is the parent company of Daqin Railway, which is a substantial shareholder of 10% shareholding or above of Shuohuang Railway Company, a significant subsidiary of the Company under the Hong Kong Listing Rules. Therefore, Taiyuan Railway Bureau is a connected person of the Company under the Hong Kong Listing Rules, and the Transportation Service Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

In order to secure coal transportation service for the Group, the Company entered into the Transportation Service Framework Agreement with Taiyuan Railway Bureau on 24 March 2016. The Transportation Service Framework Agreement is effective from 1 January 2017 and will expire on 31 December 2019.

The pricing of the services under the new Transportation Service Framework Agreement shall be agreed in the implementation agreements, but shall be determined in accordance with the general principles and order below:

(1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular service, such service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price shall be agreed within the range of the government guided price.

(2) Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.

(3) Market price: shall be determined according to the normal commercial terms and the following basis: the price of the same or similar services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable transactions with independent third party for the same period when determining whether the price for any transaction under the Agreement is market price.

(4) Agreed price: shall be determined by adding a reasonable profit over a reasonable cost. The management shall consider at least two comparable transactions with independent third party for the same period when determining the reasonable profit of any transaction under the Agreement.

In addition to the above, for certain type of service, specific pricing policy is adopted as follows:

(1) Transportation and related services provided by the Taiyuan Railway Bureau Group to the Group: price prescribed by NDRC or other related government authorities.

(2) Rolling stock leasing and other related services provided by the Group to the Taiyuan Railway Bureau Group: price prescribed by NDRC or other related government authorities.

(3) Railway track maintenance and other related services provided by the Group to the Taiyuan Railway Bureau Group: the price is negotiated and agreed by the parties on the basis of the unit price that the Taiyuan Railway Bureau Group agreed with third parties in the previous year or the same year.

The agreements A to C above are daily related transactions under the Shanghai Listing Rules, while the agreements A to D above are continuing connected transactions under the Hong Kong Listing Rules.

3. Implementation of and review opinions on the non-exempt continuing related/connected transactions

During the reporting period, the implementation of the agreements A to D above is set out in the table below. The total amount of related/connected transactions for sale of products and provision of services by the Group to CHNENERGY Group during the reporting period amounted to RMB13,006 million, which accounted for 5.2% of the operating revenue of the Group during the reporting period.

No.	Name of agreement	Provision of products and services by the Group to related/connected persons and other inflows			Purchase of products and services from connected persons by the Group and other outflows		
		Prevailing transaction cap	Transaction amount during the reporting period	Proportion in the same type of transactions	Prevailing transaction cap	Transaction amount during the reporting period	Proportion in the same type of transactions
		RMB million	*RMB million*	*%*	*RMB million*	*RMB million*	*%*
A	Mutual Coal Supply Agreement	11,300	6,257	4.2	9,400	8,048	16.1
B	Mutual Supplies and Services Agreement	11,800	6,749	–	8,800	2,327	–
	including: (1) Products		6,466	7.5		1,425	0.3
	(2) Services		283	2.3		902	3.7
D	Transportation Service Framework Agreement	1,700	10	0.2	11,600	4,195	29.3

No.	Name of agreement		Transaction item	Prevailing transaction cap *RMB million*	Transaction amount during the reporting period *RMB million*
C	Financial Services Agreement	(1)	Total amount in relation to the provision of financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to original members of Shenhua Group	4,290	0
		(2)	Annual total transaction amount of bill acceptance and discount services	10,400	54
		(3)	Maximum daily balance (including interests accrued thereon) of deposits placed by original members of Shenhua Group	52,000	21,621
		(4)	Maximum daily balance of loans, consumption credit, buyer's credit and financial leasing (including interests accrued thereon) granted to original members of Shenhua Group	26,000	15,151

No.	Name of agreement		Transaction item	Prevailing transaction cap *RMB million*	Transaction amount during the reporting period *RMB million*
		(5)	Maximum daily balance (including interests accrued thereon) of entrusted loans granted by original Shenhua Group Corporation and its subsidiaries to the Company and/or its subsidiaries through Shenhua Finance Company	13,000	3,654
		(6)	Annual total fee charged for providing the original members of Shenhua Group and its associates with consultancy, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, acceptance of bill and other financial services	182	37

The above continuing related/connected transactions were in the ordinary course of business of the Company, and were strictly in compliance with procedures of review and approval by independent directors and independent shareholders as well as disclosure requirements.

The independent non-executive directors of the Company have confirmed to the Board of the Company that they have reviewed the transactions contemplated under the agreements A to D above and are of the view that (1) those transactions were entered into in the ordinary course of business of the Group; (2) those transactions were on normal commercial terms or better terms; and (3) those transactions were conducted according to the agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Deloitte Touche Tohmatsu, the international auditors of the Company, have reviewed the transactions contemplated under the agreements A to D above and issued a letter to the Board, indicating that they were not aware of any matter for which they would consider that the continuing connected transactions above (1) had not been approved by the Company's Board of Directors; (2) were not, in all material aspects, in accordance with the pricing policy of the Group, (3) were not entered into, in all material aspects, in accordance with the relevant agreements governing such transactions; and (4) the aggregate amount of those transactions for the year ended 31 December 2017 had exceeded the annual caps disclosed in the Company's announcements on the continuing connected transactions.

Twenty three types of related party transactions were disclosed in Note 41 of the financial statements for the year 2017 prepared by the Company under the International Financial Reporting Standards. According to the Hong Kong Listing Rules, except for the transactions under item (ii) "income from entrusted loans", item (xix) "granting of entrusted loan", item (xx) "repayment of entrusted loans" and the transactions in relation to the purchase of coal from associates of the Group under item (x) "purchase of coal", all of the other related party transactions disclosed in Note 41 constituted connected transactions under the Hong Kong Listing Rules and were required to be disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules in respect of disclosure of the above connected transactions and continuing connected transactions.

4. New daily related transactions for 2017 arising from the Merger of the Group Companies

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

According to the listing rules of Shanghai and "Guidelines of the Shanghai Stock Exchange on Connected Transactions", since 28 August 2017, Guodian Group is considered as the related parties of the Company. From 28 August 2017 to 31 December 2017, as a results of the Merger of the Group Companies, the Group's daily transactions including the transactions for purchase and sale of coal, supplies and services with Guodian Group constituted the Company's newly added daily related transaction under the listing rules of Shanghai. Related transactions are as follows:

Newly added daily related transactions for 2017 between the Group and Guodian Group	**Provision of products and services by the Group to related/connected persons and other inflows Transaction amount during the reporting period** *RMB million*	**Purchase of products and services from related/connected persons by the Group and other outflows Transaction amount during the reporting period** *RMB million*
1. Mutual Coal Supply	3,224	25
2. Mutual Supplies and Services	21	79

The sum of the newly added daily transaction amount of coal, supplies and services incurred, and the transaction amount of coal, supplies and services incurred between the Company and CHNENERGY Group did not exceed the Company's annual cap of transaction for 2017 as stated in the Mutual Coal Supply Agreement and the Mutual Supplies and Services Agreement. The independent Directors of the Company are of the view that above transactions were entered into in the ordinary course of business of the Group and conducted on normal commercial terms or better. The transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole.

5. The proposal on adjusting the caps of 2018 and 2019

On 1 March 2018, the 9th meeting of the fourth session of the Board of the Company considered and approved the "Resolution on Adjusting the 2018 and 2019 Trading Caps of Certain Daily Related/Connected Transactions", proposing to revise the 2018 and 2019 caps under the "Mutual Coal Supply Agreement" and "Mutual Supplies and Services Agreement", which are pending for approval in the general meeting of the Company. For details, please refer to the H shares announcement dated 1 March 2018 and the A shares announcement of the Company dated 2 March 2018.

(II) Related transactions regarding acquisition and disposal of assets or equity

☐ Applicable ✔ Not applicable

(III) Material related transactions regarding joint external investments

Upon the approval at the 23rd meeting of the third session of the Board of the Company, the Company and Shenhua Renewables Co., Ltd. ("Shenhua Renewables") entered into the Investment Agreement on Joint Establishment of Shenhua Guohua Jiangsu Power Sales Co., Ltd. on 19 January 2017, pursuant to which both parties jointly establish Shenhua Guohua Jiangsu Power Sales Co., Ltd. ("Jiangsu Power Sales") with a registered capital of RMB500 million. The Company contributed RMB325 million, representing 65% of the equity interest in Jiangsu Power Sales, while Shenhua Renewables contributed RMB175 million, representing 35% of the equity interest in Jiangsu Power Sales. For details, please refer to the H shares announcement of the Company dated 19 January 2017 and the A shares announcement of the Company dated 20 January 2017. As of the end of the reporting period, Jiangsu Power Sales has been incorporated and the capital contributed by the Company and Shenhua Renewables has been in place. Jiangsu Power Sales is a controlled subsidiary of the Company and is consolidated in the consolidated statement of the Company.

Upon the approval at the 6th meeting of the fourth session of the Board of the Company, the Company and GD Power entered into the "Joint Venture Framework Agreement of GD Power Development Co., Ltd. and China Shenhua Energy Company Limited" on 28 August 2017. Upon the approval at the 9th meeting of the fourth session of the Board of the Company, the Company and GD Power entered into the "Agreement between GD Power Development Co., Ltd. and China Shenhua Energy Company Limited on the Establishment of a Joint Venture through Asset Restructuring" on 1 March 2018. Such transaction on establishing a joint venture is pending for approval in the general meeting of the Company. For details, please refer to the H shares announcement dated 1 March 2018 and the A shares announcement of the Company dated 2 March 2018.

(IV) Debts and liabilities between related parties

Unit: RMB million

Related parties	Relationship	Funds provided to related parties			Funds offered by related parties to the Group		
		Opening balance	Amount incurred	Closing balance	Opening balance	Amount incurred	Closing balance
Shenhua Group Corporation and its subsidiaries	Controlling shareholders and its subsidiaries	0	0	0	4,824	(3,450)	1,374
Other related parties	Others	700	(209)	491	0	0	0
Total		700	(209)	491	4,824	(3,450)	1,374

Reasons for debts and liabilities between related parties	The above related debts and liabilities incurred were mainly due to the fact that the Group provided entrusted loans to an associated company of a subsidiary of the Company through a bank, and the Group took long-term and short-term loans from Shenhua Group and performed internal decision procedures in accordance with relevant requirements.
Repayment of debts and liabilities between related parties	Currently, the principal and interests of the above entrusted loans and borrowings are repaid in a normal manner in accordance with the repayment schedule.
Undertakings related to debts and liabilities between related parties	N/A
Impacts of debts and liabilities between related parties on the operating results and financial position of the Company	The above entrusted loans and borrowings are beneficial to the normal commencement of relevant project construction and production operation of the Company and have no material impact on the operating results and financial position of the Company.

XII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Trust, contracting and leasing

☐ Applicable ✔ Not applicable

During the reporting period, the Company did not enter into or have any management and administration contracts in respect of the whole or any material part of the business of the Company.

(II) Guarantees

Unit: RMB million

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

Guarantor	Relationship between the guarantor and the listed company	Guaranteed	Amount guaranteed	Date of provision of guarantee (execution date of agreement)	Beginning date of guarantee	Expiry date of guarantee	Type of guarantee	Whether performance has been completed	Whether guarantee is overdue	Amount of guarantee overdue	Whether counter guarantee is provided	Whether guarantee is for the benefit of related parties	Relationship
Shenbao Energy Company	Controlled subsidiary	Hulunbei'er Liangyi Railway Company Limited	103.03	2008.8.30	2008.8.30	2029.8.29	Joint and several liability guarantee	No	No	0	No	No	N/A
Shendong Coal Corporation	Wholly-owned subsidiary	Yulin Zhugaita Coal Cargo Transportation Co., Ltd.	40.17	2017.6.13	2017.6.13	2019.6.12	Joint and several liability guarantee	No	No	0	No	No	N/A

Total amount of guarantee provided during the reporting period (excluding guarantee provided to its subsidiaries)	34.94
Total balance of guarantee at the end of the reporting period (A) (excluding guarantee provided to its subsidiaries	143.20
2. Guarantee provided by the Company and its subsidiaries for the benefit of its subsidiaries	
Total amount of guarantee provided for the benefit of subsidiaries during the reporting period	(864.95)
Total balance of guarantee provided for the benefit of subsidiaries at the end of the reporting period (B)	10,167.68
3. Total amount of guarantee (including guarantee for the benefit of its subsidiaries)	
Total amount of guarantee (A+B)	10,310.88
Proportion of total amount of guarantee to the net assets attributable to equity shareholders of the Company at the end of the year under Accounting Standards for Business Enterprises (%)	3.42
Including:	
Amount of guarantee provided for the benefit of shareholders, de facto controller and their related parties (C)	0
Amount of guarantee directly or indirectly provided for the benefit of parties with a gearing ratio in excess of 70% (D)	10,047.34
Portion of the total amount of guarantee in excess of 50% of net assets (E)	0
Aggregated amount of the above three amounts of guarantee (C+D+E)	10,047.34
Description of the potential joint and several repayment liability for outstanding guarantee	See below
Description of guarantee	See below

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

As at the end of the reporting period, the total balance of the amount of guarantee provided by the Group amounted to RMB10,310.88 million, including:

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

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

    As of the end of the reporting period, Shenbao Energy Company, in proportion to its shareholding, repaid the principal on the loans on behalf of Liangyi Railway Company Limited amounting to a total of RMB19.62 million. Shenbao Energy Company already made full provision for impairment on its 14.22% equity interest in Liangyi Railway Company Limited and the repayment amount paid on its behalf. Together with other shareholders, Shenbao Energy Company will continue to call for improvement of business operation of Liangyi Railway Company. As at 31 December 2017, Liangyi Railway Company had a gearing ratio of 119%.

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

    As of 31 December 2017, the actual amount withdrawn by Yulin Zhugaita Coal Cargo Transportation Co., Ltd. amounted to RMB121.72 million, with a gearing ratio of 48%.

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

As of 31 December 2017, the balance of guarantee for the USD Loan was USD34.19 million (equivalent to approximately RMB223.37 million and the gearing ratio of Baotou Coal Chemical Company was 33%.

(4) As of the end of the reporting period, the amount of guarantee between subsidiaries in consolidated reports of the Company amounted to approximately RMB9,944.30 million, which was mainly due to the fact that Shenhua Hong Kong Limited, the wholly-owned subsidiary of the Company, provided guarantees for the issuance of USD1.5 billion bonds to China Shenhua Overseas Capital Co., Ltd., its wholly-owned subsidiary, and Shenhua Funeng Power Co., Ltd. of which the Company indirectly held 51% shares provided guarantees to its two controlling subsidiaries.

For details of the opinions of the independent Directors, please refer to relevant reports disclosed in conjunction with the report.

(III) Entrusted cash asset management

1. Entrusted wealth management

(1) General status of entrusted wealth management

Unit: RMB million

Type of products	Source of funding	Maximum balance[Note]	Outstanding ending balance	Overdue uncollectible amount
Banks' wealth management products	Own fund	33,350	0	0
Entrusted wealth management products	Own fund	50	50	0
Brokers' wealth management products	Own fund	100	100	0

Note: Maximum balance refers to the daily highest balance of the entrusted wealth management of such type of the Group in 2017.

(2) Individual entrusted wealth management

Unit: RMB million

No.	Trustor	Trustee	Type of entrusted wealth management products	Amount of entrusted wealth management	Initial date of entrusted wealth management	Expiry date of entrusted wealth management	Source of funding	Capital flow	Determination of compensation	Annualized rate of return	Actual profit gained for the year	Amount of principal redeemed for the year	Whether it has been through legal procedures
1	China Shenhua	China Construction Bank	Bank's wealth management products	16,000	2016/12/23	2017/3/23	Own fund	Fixed income products	Principal guaranteed with floating return	3.35%	124.68	16,000	Yes
2	China Shenhua	Industrial and Commercial Bank of China	Bank's wealth management products	10,000	2016/12/27	2017/3/27	Own fund	Fixed income products	Principal-guaranteed with floating return	3.20%	74.44	10,000	Yes
3	China Shenhua	Industrial and Commercial Bank of China	Bank's wealth management products	5,000	2016/12/29	2017/3/29	Own fund	Fixed income products	Principal-guaranteed with floating return	3.20%	37.22	5,000	Yes
4	China Shenhua	Agricultural Bank of China	Bank's wealth management products	10,000	2017/3/31	2017/7/3	Own fund	Fixed income products	Principal-guaranteed with floating return	4.25%	103.26	10,000	Yes
5	China Shenhua	China Development Bank	Bank's wealth management products	5,000	2017/3/31	2017/7/26	Own fund	Fixed income products	Principal-guaranteed with floating return	4.10%	61.99	5,000	Yes
6	China Shenhua	China Development Bank	Bank's wealth management products	5,000	2017/4/1	2017/7/26	Own fund	Fixed income products	Principal-guaranteed with floating return	4.10%	61.99	5,000	Yes
7	China Shenhua	China Development Bank	Bank's wealth management products	4,000	2017/5/9	2017/9/8	Own fund	Fixed income products	Principal-guaranteed with floating return	4.00%	50.45	4,000	Yes
8	Shenhua Finance Company	China Construction Bank	Bank's wealth management products	250	2016/12/13	2017/12/13	Own fund	Money market instruments, outstanding bonds, standardized financial investment instruments recognized by regulatory department as well as creditor's right and non-standardized equity assets	Non-principal guaranteed with floating return	3.56%	8.90	250	Yes

No.	Trustor	Trustee	Type of entrusted wealth management products	Amount of entrusted wealth management	Initial date of entrusted wealth management	Expiry date of entrusted wealth management	Source of funding	Capital flow	Determination of compensation	Annualized rate of return	Actual profit gained for the year	Amount of principal redeemed for the year	Whether it has been through legal procedures
9	Shenhua Finance Company	Everbright Bank	Bank's wealth management products	100	2016/12/14	2017/12/14	Own fund	Money market instruments, bond products, financial instruments with fair returns and liquidity	Non-principal guaranteed with floating return	4.10%	4.10	100	Yes
10	Shenhua Finance Company	China Construction Bank	Bank's wealth management products	2,000	2016/12/22	2017/1/23	Own fund	Money market instruments, outstanding bonds, standardized financial investment instruments recognized by regulatory department as well as right of return on assets, right of return on particular assets non-standardized assets	Non-principal guaranteed with floating return	4.55%	7.98	2,000	Yes
11	Shenhua Finance Company	CITIC Trust	Entrusted wealth management products	50	2016/12/27	Indefinite	Own fund	Fixed income assets, cash assets, financial instruments or products with high degree of security and permitted for investment by rules and regulations and regulatory department	Based on net value	N/A	N/A	0	Yes
12	Shenhua Finance Company	CITIC Securities	Brokers' wealth management products	100	2017/1/4	2019/1/4	Own fund	Fixed income assets, cash assets and financial instruments	Based on net value	N/A	N/A	0	Yes

Note: In February 2018, Shenhua Finance Company redeemed wealth management products of CITIC Trust, with principal amount of RMB50 million and gains of RMB2.4 million.

As of the end of 2017, the total outstanding principal amount of entrusted wealth management products of the Group amounted to RMB150 million, which mainly consisted of entrusted and brokers' wealth management products invested by Shenhua Finance Company. The Group did not have any failure of redeeming or cashing principal when due and no provision for impairment for the above wealth management products has been made.

2. Entrusted loans

(1) General status of entrusted loans

Unit: RMB million

Type of products	Source of funding	Maximum balance in 2017[Note]	Outstanding ending balance	Overdue uncollectible amount
Entrusted loans	Own fund	664.0	420.0	37.4

Note: Maximum balance in 2017 refers to the daily highest balance of the entrusted loans of such type of the Group in 2017.

(2) Individual entrusted loan

Unit: RMB million

Borrower	Relationship with the Group	Trustee	Amount of entrusted loans	Initial date of entrusted loans	Expiry date of entrusted loans	Maturity	Source of funding	Capital flow	Determination of remuneration	Interest rate	Actual gain/loss for the year	Amount of principal redeemed for the year	Whether it has been through legal procedures
Sanxin Railway Company	joint stock company	Bank of Beijing	37.4	2014/2/13	2015/2/13	1 year	Own fund	Working capital	One-off payment of principal with accrued interest upon expiry	6%	0	0	Yes
Inner Mongolia Yili Chemical	joint stock company	Bank of China	626.6	2007/12/28	2017/12/29	10 years	Own fund	Replacement of loans	Settlement of interest on quarterly basis	4.9%	29.4	626.6	Yes
Inner Mongolia Yili Chemical	joint stock company	Bank of China	420.0	2017/12/29	2020/12/29	3 years	Own fund	Replacement of loans	Settlement of interest on quarterly basis	4.75%	0.2	0	Yes

Note: 1. The entrusted loan provided by the Company to Inner Mongolia Sanxin Railway Co., Ltd. ("Sanxin Railway Company") was not repaid when it was due in February 2015, and both parties are under negotiation in respect of the subsequent relevant matters.

2. Shendong Power Company, being the wholly-owned subsidiary of the Company, recovered principal of the entrusted loan amounted to RMB626.6 million due in 29 December 2017 from Inner Mongolia Yili Chemical Industry Co., Ltd. ("Inner Mongolia Yili Chemical"). In December 2017, Shendong Power Company entered into entrusted loan agreements with amounts of RMB420 million and RMB200 million with Inner Mongolia Yili Chemical, respectively, of which the entrusted loan agreement with RMB420 million has been performed on 29 December 2017, while the entrusted loan agreement with RMB200 million has not been performed.

As of 31 December 2017, the Group did not grant entrusted loans with an amount exceeding 5% of the Group's latest audited net assets attributable to equity holders of the Company to any individual party. The Company did not utilise the proceeds raised to grant entrusted loans, and there was no entrusted loan that was involved in litigations. No provision for impairment for the above entrusted loans has been made by the Group.

Under centralised capital management of the Group, the entrusted loans among the Company and its subsidiaries were used for meeting operating and development needs. The part of entrusted loans has been offset in the consolidated financial statements of the Group.

(IV) Derivatives investment

1. Thermal coal futures

As of the end of 2017, the Group held 3,800 lots for contract of thermal coal futures due in January 2018. In addition, a total of 7,746 lots for contract of thermal coal futures were liquidated by the Group, realizing investment gain totaled RMB7.3 million during the reporting period.

2. Exchange derivatives transactions for hedging purpose

To avoid USD debt risk, according to the Annual Plan on Financial Derivatives Business of China Shenhua for 2017, which was approved in the 20th meeting of the third session of the Board of the Company after consideration, the Company, after subsequent standardised decision-making process, conducted exchange derivatives transactions for hedging purpose of some of the USD debts by use of financial derivatives in 2017, with transaction value amounting to USD250 million.

The propose of the exchange rate derivatives transaction for hedging purpose conducted by the Group is to manage risks, but not to procure profits. The specific measures adopted are in line with the nature of risk-hedging.

XIII. PROACTIVE FULFILMENT OF SOCIAL RESPONSIBILITY

(I) Poverty alleviation

1. Targeted poverty alleviation plan

China Shenhua attached importance to the poverty alleviation work conforming to the requirements under the targeted poverty alleviation plan and documents of the State. Adhering to the principle of contributing based on its ability to benefit the public, China Shenhua has adopted different measures based on the local circumstances with emphasis on the outcome and focused on the grassroots and the "Three Rural Issues". China Shenhua subsidized students in impoverished areas, assisted in completing studies, built schools and libraries, and helped children from poor families with leukemia and congenital heart disease. With continuous improvement of the production capability, life quality and infrastructure and public services in provinces targeted for support, provinces under focused poverty alleviation as the intention and the foothold, the Group meticulously organized poverty alleviation projects and constantly invested supporting funds with standardized management and enhanced supervision while carrying out various work including education support, hygiene improvement and medical support, enhancement in construction of rural infrastructure and production facilities and assistance in special industries in deprived regions.

Shenhua Foundation is the major entity of China Shenhua for execution of poverty alleviation work and China Shenhua is the key governing unit and the major donor of Shenhua Foundation[1].

2. Summary of the targeted poverty alleviation during the year

In 2017, China Shenhua contributed approximately RMB135 million[2] to the targeted poverty alleviation which was mainly used for: (1) industrialization development of the local areas for agriculture and animal husbandry in provinces targeted for support and provinces under focused poverty alleviation, broadening the channels for increasing income of deprived farmers and herdsmen; (2) sponsorship for the local to construct roads and bridges for production purpose, manage basic farmland, transform saline-alkali land, build new irrigation systems and water sources, establish rural power lines and establish village-level medical and health facilities, and deploy stationed cadres to assist grassroots for implementation; (3) education subsidy for the students, construction of schools and libraries in deprived regions, and aids to children with leukemia and congenital heart disease in impoverished families.

Each poverty alleviation work by China Shenhua achieved remarkable results and was well recognized by the local government and citizens. For the details of Shenhua Foundation and the relevant poverty alleviation work, please refer to the 2017 CSR Report which is disclosed in conjunction with this report.

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1 The donation from the Group accounts for 83% of the total donation received by Shenhua Foundation since its establishment.

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

3. Statistical table of the targeted poverty alleviation work in 2017[1]

Index	Number and Circumstances
I. GENERAL	
In which: Capital *(RMB0'000)*	13,507
II. CONTRIBUTION BY CATEGORY	
1. Education Support *(RMB0'000)*	2,326
In which: 1.1 Subsidy for poor students *(RMB0'000)*	282
1.2 Number of subsidized poor students	1,100
1.3 Improvement in contribution to educational resources in deprived regions *(RMB0'000)*	2,044
2. Health Support *(RMB0'000)*	5,293
In which: 2.1 Helping poor people with treatment for serious illness *(RMB0'000)*[Note]	5,293
3. Social Support *(RMB0'000)*	5,888
In which: 3.1 Cooperation for poverty alleviation in eastern and western regions *(RMB0'000)*	4,357
3.2 Targeted poverty alleviation *(RMB0'000)*	1,531
III. Awards	The Shenhua Loving Care Activities was awarded the title of "Four 100 Best Volunteering Projects" for Serving Retired Veteran Cadre by 11 departments such as the Publicity Department of the CPC, the Central Civilization Office and so on.

Note: It is mainly used to aid children with congenital heart disease and leukemia.

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

4. **Subsequent targeted poverty alleviation plan**

In 2018, China Shenhua will earnestly adhere to the spirit of poverty alleviation of the State and continue to fulfil the political responsibility and social responsibility of a state-owned enterprise. It will constantly enhance the efforts on Tibet-support, Qinghai-support, Xinjiang-support and targeted poverty alleviation work, and carry out various poverty alleviation works with precision and priority to emergency. Support for social public services segment, such as education support, medical support and technology support, will be prioritized. It will strive to improve the production capability and living condition in deprived regions and unearth the relative advantages in deprived regions such as special farming and husbandry industry and abundant labor resources. By adequately integrating the poverty alleviation resources of the Group with the local relative advantages and resources, the Company will gradually enhance the self-development capability of the poor and alter the economic development mode of the deprived regions with provision of further support and assistance to the poverty alleviation and wealth acquisition in the deprived regions.

(II) Corporate social responsibilities

For details of the Group's CSR endeavors, please refer to the 2017 CSR Report which is disclosed in conjunction with this report.

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

During the reporting period, the Group continued to promote the construction of standardized systems such as the ISO14001 environmental management system, energy management system, risk pre-control system, clean production check, strengthened system construction work and strictly implemented the "Three Simultaneous" management of energy conversation and environmental protection. The Company has initially established an energy consumption monitoring system and established an environmental monitoring system that integrates real-time on-line monitoring and regular remote-sensing monitoring of the Group's domestic operations. The Company strictly carries out the environmental impact assessment of construction projects. In addition, it has formulated an emergency response plan for environmental emergencies, which mainly includes accident risk descriptions, emergency rescue organizations and their responsibilities, early warning and information reports, emergency response, information release and later disposal. No major environmental accidents occurred throughout the year.

As at the end of 2017, 47 enterprises under the Group and its subsidiaries categorized as national major pollution source under supervision (among which 42 were exhaust gas enterprises and 6 were wastewater discharging enterprises (inclusive of 1 exhaust gas enterprise concurrently)), mainly are coal-fired power plants, coal chemical plants and coal preparation plants, etc. which are located in places including Inner Mongolia, Shaanxi, Fujian, Hebei, Anhui, Jiangsu and Zhejiang. During the reporting period, total emission of air pollutants produced by the Group is as follows: sulfur dioxide of 38.0 thousand tons, nitrogen oxides of 54.9 thousand tons, soot of 6.9 thousand tons and chemical oxygen demand (COD) of 1,511 tons.

The main pollutants emitted by exhaust gas enterprises are soot, sulphur dioxide and nitrogen oxides, which are emitted to the atmosphere through the chimneys. Exhaust gas enterprises are mainly distributed in public thermal power plants, coal-to-chemical captive power plants, heating boilers for mines and coking plants. Emission standards implemented include Emission Standards for Air Pollutants Produced by Thermal Plants (GB13223-2011), Emission Standards for Air Pollutants Produced by Boilers (GB13271-2014) and Emission Standards for Pollutants Produced by Coking Chemical Industry (GB16171-2012). Renovation of pollution prevention and treatment facilities of Bayannur Coking Plant under the Company has been commenced and put into operation, and has obtained emission permit and fulfilled the emission standard. During the reporting period, save as disclosed above, the common thermal power plants, self-owned power plant and heating boilers in mining areas under China Shenhua are well equipped with pollution prevention and treatment facilities and in stable operation which fulfilled the emission standard. Among the above, 82.4% of coal-fired power plants (calculated based on installed capacity) achieved ultra-low emissions. The operating plants of power enterprises under China Shenhua completed procedure for application of emission permits.

The main pollutant discharged by wastewater discharging enterprises is chemical oxygen demand (COD), which is discharged to the surface water through the sewage outfall of the enterprises. Wastewater discharging enterprises is mainly distributed in coal mining and coal-to-chemical enterprises and wastewater treatment plants. The emission standard implemented was the Comprehensive Emission Standards for Sewage (GB8978-1996). During the reporting period, the enterprises under China Shenhua are well equipped with wastewater pollution prevention and treatment facilities and in stable operation which fulfilled the discharge standard.

For the environmental protection work of China Shenhua, please refer to the 2017 CSR Report which is disclosed in conjunction with this report.

(IV) Donations

During the reporting period, the Group made external donations of approximately RMB63 million.

XIV. CONVERTIBLE BONDS OF THE COMPANY

☐ Applicable ✔ Not applicable

Section VII Changes in Share Capital and Shareholders

I. CHANGE IN ORDINARY SHARE CAPITAL

(I) Change in the number of ordinary shares

There was no change in the total number of ordinary shares and the shareholding structure of the Company during the reporting period. The Company did not issue any preference share.

	As at 31 December 2017	
	Number	**Percentage** %
I. Shares with selling restrictions	0	0.00
II. Shares without selling restrictions	19,889,620,455	100.00
1. RMB ordinary shares	16,491,037,955	82.91
2. Overseas listed foreign shares	3,398,582,500	17.09
III. Total number of shares	19,889,620,455	100.00

For the year ended 31 December 2017, the Group did not purchase, sell, or redeem any of the Company's securities as defined under the Hong Kong Listing Rules.

As of the disclosure date of this report, so far as our Directors are aware, the Company has satisfied minimum public float requirement under Rule 8.08 of the Hong Kong Listing Rules.

(II) Changes of shares with selling restrictions

☐ Applicable ✔ Not applicable

II. ISSUANCE AND LISTING OF SECURITIES

The Company did not issue any ordinary share, convertible corporate bond, warrant bond, corporate bond or other derivative securities, nor did it enter into any equity-linked agreement during the reporting period.

(I) Changes in total number of ordinary shares, shareholding structure and assets and liabilities structure of the Company

☐ Applicable ✔ Not applicable

(II) Pre-emptive rights

There is no provision for pre-emptive rights under the Articles of Association and the PRC laws which would entitle the existing shareholders to have priority to subscribe for new shares on a pro rata basis in the event of new share issuance by the Company.

III. SHAREHOLDERS

(I) Total number of shareholders

Total number of shareholders of ordinary shares as at the end of the reporting period *(accounts)*	190,798
Including: Holders of A shares (including CHNENERGY)	188,577
Registered holders of H shares	2,221
Total number of ordinary shareholders at the end of last month prior to the date of this annual report *(accounts)*	197,544
Including: Holders of A shares (including CHNENERGY)	195,377
Registered holders of H shares	2,167

Note: The number of holders of A shares is a combination of ordinary securities accounts and margin financing and securities lending accounts, pursuant to the information provided by Shanghai Branch of China Securities Depository and Clearing Corporation Limited.

(II) Shareholdings of top ten shareholders and top ten holders of marketable shares (or shareholders without selling restrictions) as of the end of the reporting period

Unit: share

Shareholdings of the top ten shareholders							
Name of shareholders	Increase/ decrease during the reporting period	Number of shares held at the end of the reporting period	Percentage %	Number shares with selling restrictions	Shares subject to pledge or lock-up Status	Number	Nature of Shareholders
China Energy Investment Corporation Limited	0	14,530,574,452	73.06	0	Nil	N/A	State-owned
HKSCC NOMINEES LIMITED	+313,703	3,390,779,799	17.05	0	Unknown	N/A	Overseas corporate
China Securities Finance Corporation Limited	+106,519,808	676,415,643	3.40	0	Nil	N/A	Others
Central Huijin Asset Management Ltd.	0	110,027,300	0.55	0	Nil	N/A	State-owned
Hong Kong Securities Clearing Company Limited	+16,832,432	46,831,966	0.24	0	Nil	N/A	Overseas corporate
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-end Index Securities Investment Fund	+500,238	15,149,064	0.08	0	Nil	N/A	Others
Bank of Communications–E Fund 50 Index Securities Investment Fund	+417,900	13,023,640	0.07	0	Nil	N/A	Others
Huatai Securities Co., Ltd.	+8,674,210	11,574,177	0.06	0	Nil	N/A	Domestic non-state-owned legal person
ICBC Credit Suisse Asset – ICBC – Specific Clients Asset Management	+3,499,461	10,369,654	0.05	0	Nil	N/A	Others
Ansteel Capital Holding Co., Ltd.	+9,525,101	9,525,101	0.05	0	Nil	N/A	State-owned legal person

Shareholdings of top ten shareholders without selling restrictions

Name of shareholders	Number of shares without selling restrictions	Type and number of shares: Type	Number
China Energy Investment Corporation Limited	14,530,574,452	RMB ordinary shares	14,530,574,452
HKSCC NOMINEES LIMITED	3,390,779,799	Overseas listed foreign shares	3,390,779,799
China Securities Finance Corporation Limited	676,415,643	RMB ordinary shares	676,415,643
Central Huijin Asset Management Ltd.	110,027,300	RMB ordinary shares	110,027,300
Hong Kong Securities Clearing Company Limited	46,831,966	RMB ordinary shares	46,831,966
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-end Index Securities Investment Fund	15,149,064	RMB ordinary shares	15,149,064
Bank of Communications – E Fund 50 Index Securities Investment Fund	13,023,640	RMB ordinary shares	13,023,640
Huatai Securities Co., Ltd.	11,574,177	RMB ordinary shares	11,574,177
ICBC Credit Suisse Asset – ICBC – Specific Clients Asset Management	10,369,654	RMB ordinary shares	10,369,654
Ansteel Capital Holding Co., Ltd.	9,525,101	RMB ordinary shares	9,525,101

Statement on the connected relationships among the above shareholders or whether they are parties acting in concert	Both of HKSCC Nominees Limited and Hong Kong Securities Clearing Company Limited are wholly-owned subsidiaries of Hong Kong Exchanges and Clearing Limited; Saved as disclosed above, the Company is not aware of any connected relationships between the top ten shareholders without selling restrictions and the top ten shareholders, and whether they are parties acting in concert as defined in the Measures for Administration of Acquisition of Listed Companies of CSRC.
Statement on holders of preference shares with voting rights restored and number of shares held	N/A

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

(III) Substantial shareholders' interests and short positions in the shares of the Company

As at 31 December 2017, persons set out in the table below had an interest and/or short position in the shares or underlying shares of the Company which is required to be recorded in the register of equity interests and/or short positions pursuant to section 336 of Part XV of the Securities and Futures Ordinance (the "SFO", Chapter 571 of the Laws of Hong Kong):

No.	Name of shareholders	Capacity	H shares/ A shares	Nature of interest	Number of H shares/ A shares held	Percentage of H shares/ A shares over total issued H shares/ A shares respectively %	Percentage of total issued share capital of the Company %
1	CHNENERGY	Beneficial owner	A shares	N/A	14,530,574,452	88.11	73.06
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholders	H shares	Long position	243,633,822	7.17	1.22
				Short position	466,500	0.01	0.00

Notes: (1) Among H shares in long position and short position held by BlackRock, Inc., 1,234,165 H shares in long position and 283,000 H shares in short position involve derivatives, and their type is unlisted derivatives – cash settled.

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

Save as disclosed above, as at 31 December 2017, no other person held any interest and/or short position in the shares or underlying shares of the Company which is required to be recorded in the register to be kept thereunder, or was a substantial shareholder of the Company pursuant to section 336 of Part XV of the SFO.

IV. CHANGES IN CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

(I) Controlling shareholder

1. Legal person

Name	China Energy Investment Corporation Limited
Legal representative	Qiao Baoping
Date of incorporation	23 October 1995
Principal business	State-owned assets operating activities within the scope authorized by the State Council; investment and management activities in various sectors, including resource products (such as coal), coal liquefaction, coal chemical, power, thermal, port, various transportation, finance, domestic and international trade and logistics, real estate, advanced technology and information consultation and etc.; planning, organizing, coordinating and managing the production and operating activities of the companies in the CHNENERGY Group in such sectors; and sales of chemical materials and chemical products (excluding hazardous chemicals), textiles, construction materials, machinery, electronic equipment and office equipment. (Enterprise is allowed to choose the business to be engaged in and carry out such business activities pursuant to laws; for projects that are subject to approval pursuant to the law, business operations shall commence in accordance with the business scope approved upon receipt of the approval from revenant authorities; no business activities which are prohibited and restricted by the industrial policies shall be carried out.)
Shareholdings in other domestic and overseas listed subsidiaries and associates during the reporting period	At the end of the reporting period, CHNENERGY held 143,068,000 shares of China National Chemical Engineering Co., Ltd., representing 2.90% of its total shares[Note].
Other Information	On 22 November 2017, Shenhua Group Corporation Limited changed its name into China Energy Investment Corporation Limited, and completed the industrial and commercial registration of changes in the business license. For details, please refer to the A share announcement of the Company on 28 November 2017 and the H share announcement of the Company on 27 November 2017.

Note: As of the end of the reporting period, CHNENERGY's absorption and merger of China Guodian is still in the process of reorganization, such part of data does not include the equity interest of listed companies held by China Guodian.

2. Index and date of changes in controlling shareholders during the reporting period

There was no change in the controlling shareholder of the Company during the reporting period.

3. Diagram of the equity and controlling relationship between the Company and the controlling shareholder

China Energy Investment Corporation Limited

↓ 73.06%

China Shenhua Energy Company Limited

(II) De facto controller

1. Legal person

Name: State-owned Assets Supervision and Administration Commission of the State Council

2. Index and date of changes in de facto controller during the reporting period

There was no change in de facto controller of the Company during the reporting period.

3. Diagram of the equity and controlling relationship between the Company and the de facto controller

State-owned Assets Supervision and Administration Commission of the State Council

↓ 100%

China Energy Investment Corporation Limited

↓ 73.06%

China Shenhua Energy Company Limited

V. OTHER CORPORATE SHAREHOLDERS WITH MORE THAN 10% SHAREHOLDING IN THE COMPANY

As at the end of the reporting period, there was no other corporate shareholder with more than 10% shareholding in the Company.

VI. RESTRICTIONS ON THE REDUCTION IN THE SHAREHOLDING

☐ Applicable ✔ Not applicable

I. CHANGES IN SHAREHOLDING AND REMUNERATION

(I) Changes in shareholding and remuneration

1. Directors, supervisors and senior management as at the end of the reporting period

Name	Positions	Gender	Age	Date of appointment (from the first appointment date)	Scheduled expiration of term of office	Total remuneration before tax received from the Company during the reporting period *RMB ten thousand*	Including performance remuneration received for previous years *RMB ten thousand*	Whether received remuneration from shareholders of the Company or associates during the reporting period
Ling Wen	Chairman	Male	54	2 January 2018	22 June 2020	–	–	Yes
	Vice Chairman (Resigned)			27 June 2014	2 January 2018			
	Executive Director			6 November 2004	22 June 2020			
	President (Resigned)			4 January 2017	2 January 2018			
Han Jianguo	Executive Director	Male	59	24 May 2011	22 June 2020	–	–	Yes
	President (Resigned)			27 June 2014	4 January 2017			
Li Dong	Executive Director	Male	57	17 June 2016	22 June 2020	–	–	Yes
	Senior Vice President			24 May 2011	–			
Zhao Jibin	Non-Executive Director	Male	65	17 June 2016	22 June 2020	–	–	Yes
Tam Wai Chu, Maria	Independent Non-Executive Director	Female	72	23 June 2017	22 June 2020	18.8	–	No
Jiang Bo	Independent Non-Executive Director	Female	62	23 June 2017	22 June 2020	18.8	–	No
Zhong Yingjie, Christina	Independent Non-Executive Director	Female	49	23 June 2017	22 June 2020	18.8	–	No
Zhai Richeng	Chairman of the Supervisory Committee	Male	53	22 August 2014	22 June 2020	94.1	16.6	No
Zhou Dayu	Supervisor	Male	52	17 June 2016	22 June 2020	94.5	8.3	No
Shen Lin	Supervisor	Male	57	22 August 2014	22 June 2020	92.8	8.7	No
Wang Jinli	Senior Vice President	Male	58	27 September 2013	–	–	–	Yes
Wang Shumin	Vice President	Male	55	25 November 2015	–	47.0	16.6	Yes
Zhang Zifei	Vice President	Male	59	25 November 2015	–	93.8	17.6	No
Zhang Jiming	Vice President	Male	54	1 July 2016	–	83.2	7.1	No
Lv Zhiren	Vice President	Male	53	17 March 2017	–	73.3	10.8	No
Jia Jinzhong	Vice President	Male	54	17 March 2017	–	58.0	–	No
Huang Qing	Secretary to the Board	Male	52	6 November 2004	–	102.4	21.6	No
Zhang Kehui	Chief Financial Officer	Female	54	22 January 2007	–	99.5	20.6	No
Total	/	/	/	/	/	895.0	127.9	/

Notes: (1) The remuneration of Directors and senior management received from shareholders of the Company for 2017 will be disclosed on the website of CHNENERGY upon completion of assessment made by the SASAC of the State Council.

(2) The remuneration package of Directors and supervisors for 2017 is subject to approval by the Company at the 2017 annual general meeting; the remuneration package of the senior management was approved by the Board; the remunerations payable include salaries, allowances, social benefit payment, income tax and retirement scheme contributions.

(3) The remuneration received by Wang Shumin from the Company covers the period from January to May 2017. He received remuneration from the controlling shareholder from June to December 2017 and did not receive remuneration from the Company.

(4) Other than Lv Zhiren, who holds 1,500 A shares of the Company, none of the personnel mentioned above hold any shares in the Company during the term of service in the reporting period.

(5) The 2016 annual general meeting of the Company approved that term of service of the fourth session of the Board and the supervisory committee is three years (23 June 2017 to 22 June 2020).

(6) The ages were calculated as of 31 December 2017.

2. Directors and senior management resigned during the reporting period

Name	Position before resignation	Gender	Age	Date of appointment	Date of resignation	Total remuneration before tax received from the Company during the reporting period	Including: performance remuneration received for previous years	Whether received remuneration from shareholders of the Company during the reporting period
						RMB ten thousand	*RMB0'000*	
Zhang Yuzhuo	Chairman Executive Director	Male	55	27 June 2014 18 June 2010	27 March 2017	–	–	Yes
Fan Hsu Lai Tai	Independent Non-Executive Director	Female	72	18 June 2010	23 June 2017	26.3	–	No
Gong Huazhang	Independent Non-Executive Director	Male	71	5 June 2009	23 June 2017	26.3	–	No
Guo Peizhang	Independent Non-Executive Director	Male	68	18 June 2010	23 June 2017	26.3	–	No
Chen Hongsheng	Non-Executive Director	Male	67	25 May 2012	23 June 2017	–	–	Yes
Wang Yongcheng	Vice President	Male	55	25 November 2015	6 November 2017	89.0	18.3	No
Total	/	/	/	/	/	167.9	18.3	/

Notes: (1) The remuneration package of Directors for 2017 is subject to approval by the Company at the 2017 annual general meeting; the remuneration package of the senior management was approved by the Board; the remunerations payable include salaries, allowances, social benefit payment, income tax and retirement scheme contributions.

(2) The personnel mentioned above did not hold any shares of the Company during term of service in the reporting period.

(3) The ages were calculated as of 31 December 2017.

3. Biographical details of the Directors, supervisors and senior management as at the end of the reporting period

(1) Directors

Name	Biographical details
 **LING Wen** Chairman and Executive Director	Born in February 1963, male, Chinese, a professor and Academician of Chinese Academy of Engineering, and a member of the Communist Party of China (CPC). Dr. Ling has extensive management experience in financial institutions and enterprises. He received a Ph.D. degree from Harbin Institute of Technology in 1991, and conducted postdoctoral research in Shanghai Jiao Tong University from 1992 to 1994. Dr. Ling has served as the Chairman and an Executive Director of the fourth session of the Board of the Company since January 2018, and a Director, General Manager and deputy secretary to the Leading Party Members' Group of CHNENERGY since November 2017. Dr. Ling served as the Vice Chairman and an Executive Director of the fourth session of the Board of the Company from June 2017 to January 2018, and the President of the Company from January 2017 to January 2018. Dr. Ling served as a member of the Leading Party Members' Group of Shenhua Group Corporation from August 2003 to May 2016, the deputy secretary to the Leading Party Members' Group of Shenhua Group Corporation from May 2016 to November 2017, a Director of Shenhua Group Corporation from April 2010 to November 2017, and the General Manager of Shenhua Group Corporation from May 2014 to November 2017. Prior to the foregoing, Dr. Ling had served in various capacities, including the deputy General Manager of Shenhua Group Corporation, Executive Director of the first session of the Board, the Vice Chairman and Executive Director of the second session of the Board, the Vice Chairman and Executive Director of the third session of the Board of the Company, the President, executive Vice President and chief financial officer of the Company, the Chairman of Shenhua Finance Company, Deputy General Manager of the International Business Department of the Industrial and Commercial Bank of China, Deputy General Manager of Industrial and Commercial Bank of China (Asia) Limited and Chairman of UB China Business Management Company Limited.

Name	Biographical details
 **HAN Jianguo** Executive Director	Born in March 1958, male, Chinese, a researcher and a member of the CPC. Dr. Han has extensive experience in the Chinese coal industry, macroeconomics and corporate management. He received a master's degree in management from Tongji University in 1999, and a Ph.D. degree in Economics from Wuhan University in 2016. Dr. Han has served as an Executive Director of the fourth session of the Board of the Company since June 2017, and deputy secretary to the Leading Party Members' Group of CHNENERGY since November 2017. Dr. Han served as the Deputy General Manager of Shenhua Group Corporation from August 2003 to November 2017, a member of the Leading Party Members' Group of Shenhua Group Corporation from August 2003 to December 2015, the deputy secretary to the Leading Party Members' Group of Shenhua Group Corporation from December 2015 to November 2017, the chief information officer of Shenhua Group Corporation from March 2009 to November 2017 and a Director of Shenhua Group Corporation from July 2014 to November 2017. Prior to the foregoing, Dr. Han had served in various capacities, including a non-Executive Director of the first and second session of the Board, and an Executive Director of the second and third session of the Board of the Company, the President and Senior Vice President of the Company, Chairman and General Manager of Shenhua Coal Trading Company Limited, and division head of the State Development and Planning Commission.

Name	Biographical details
 **LI Dong** Executive Director and Senior Vice President	Born in January 1960, male, Chinese, a senior engineer with the qualification as a professor and a member of the CPC. Dr. Li has extensive experience in the management of coal enterprises in China. He obtained a master's degree from China Europe International Business School in 2005 and a Ph.D. degree from Liaoning Technical University in 2005. Dr. Li has served as an Executive Director of the fourth session of the Board of the Company since June 2017, a Senior Vice President of the Company since May 2011, and the Deputy General Manager and member of the Leading Party Members' Group of CHNENERGY since November 2017. Dr. Li served as the Deputy General Manager of Shenhua Group Corporation from August 2006 to November 2017, a member of the Leading Party Members' Group of Shenhua Group Corporation from April 2010 to November 2017, and an Executive Director of the third session of the Board the Company from June 2016 to June 2017. Prior to the foregoing, Dr. Li had served in various capacities, including Deputy Chief Engineer of Shenhua Group Corporation, Chairman of Shenhua Zhunge'er Energy Co., Ltd., and head of General Manager's Office of Shenhua Group Corporation.

Name	Biographical details
 **ZHAO Jibin** Non-Executive Director	Born in July 1952, male, Chinese, a senior engineer and a member of the CPC. Mr. Zhao has extensive experience in business administration and railway transportation administration. He graduated from Southwest Jiaotong University majored in transportation in 1984, and obtained a master's degree from Changchun Institute of Optics and Fine Mechanics. Mr. Zhao has served as a non-Executive Director of the fourth session of the Board of the Company since June 2017, an external Director of CHNENERGY since November 2017 and of China National Building Material Group Corporation since December 2014. Mr. Zhao had served as a Deputy General Manager of China Mobile Communications Corporation from May 2008 to June 2013, an Independent Non-Executive Director of China South Locomotive and Rolling Stock Corporation Limited from December 2007 to June 2014, an external Director of Shenhua Group Corporation from April 2015 to November 2017, and a non-Executive Director of third session of the Board of the Company from June 2016 to June 2017. Prior to the foregoing, Mr. Zhao had successively held the posts as the Master of Changchun Railway Station, Director of Changchun Railway Sub-bureau, Director of Hohhot Railway Bureau and Zhengzhou Railway Bureau, the Chairman of China Tietong Telecommunications Corporation, deputy to the ninth and tenth National People's Congress, an honorary professor of Beijing Jiaotong University and Changchun University of Science and Technology.

Name	Biographical details
 **TAM Wai Chu, Maria** Independent Non-Executive Director	Born in November 1945, female, Chinese, a barrister in Hong Kong. She graduated from the University of London in 1970 with a bachelor's degree, and received an honorary Ph.D. degree in Laws from the Chinese University of Hong Kong in 1989. She has extensive experience in legal affairs and supervision. Dr. Tam has served as an Independent Non-Executive Director of the Company since June 2017, deputy to the twelfth National People's Congress since March 2013, a Hong Kong SAR convener to the National People's Congress, and a member of the Basic Law Committee of the Hong Kong Special Administrative Region since July 1997. Dr. Tam has also served as an Independent Non-Executive Director in various listed companies in Hong Kong, including Wing On Company International Limited, Minmetals Land Limited, Sinopec Kantons Holdings Limited, Tong Ren Tang Technologies Company Limited, Sa Sa International Holdings Limited, Nine Dragons Paper (Holdings) Limited and Macau Legend Development Limited. Dr. Tam served as the Chairman of Operations Review Committee and an ex officio of the Advisory Committee on Corruption under the Independent Commission Against Corruption of Hong Kong from January 2015 to December 2017. She served as a member of the Advisory Committee on Corruption and Witness Protection Review Board of Independent Commission Against Corruption of Hong Kong from January 2010 to December 2017. Prior to the foregoing, Dr. Tam had successively served as a deputy to the ninth, tenth and eleventh National People's Congress. Dr. Tam was awarded the Gold Bauhinia Star in 1998 and awarded the Grand Bauhinia Medal, symbolizing the highest honor of the Hong Kong Government, in 2013.

Name	Biographical details
 **JIANG Bo** Independent Non-Executive Director	Born in December 1955, female, Chinese, a senior accountant and senior economist and a member of the CPC. Dr. Jiang has extensive experience in financial theory and knowledge and practice of corporate management. Dr. Jiang graduated from Jilin Finance and Trade College in 1983, and received a Ph.D. degree in Economics from Renmin University of China in 2004. Dr. Jiang has served as an independent non-Executive Director of the Company since June 2017, and an Independent Non-Executive Director of Sinopec Oilfield Service Corporation since February 2015. Prior to the foregoing, Dr. Jiang had served in various capacities, including the Chief Financial Officer and the Chairman of the labor union of China Everbright Group Ltd., a Director of China Everbright Group Company Limited (Hong Kong), a Director of Sun Life Everbright Life Insurance Co., Limited, a Director of equity interest of Everbright Financial Holding Asset Management Co., Ltd., a Director of Shenyin & Wanguo Securities Co., Ltd., an Executive Director, the Vice President, a member of the CPC Committee and the Chief Auditing Officer (concurrent position) of China Everbright Bank.
 **ZHONG Yingjie, Christina** Independent Non-Executive Director	Born in November 1968, female, Chinese, a certified public accountant. She graduated from Wuhan University in Auditing in 1990 with a bachelor's degree. She also obtained a master's degree in Business and Administration from China Europe International Business School (CEIBS) in 2000. Ms. Zhong has extensive experience in finance and capital markets. Ms. Zhong has served as an Independent Non-Executive Director of the Company since June 2017. Prior to the foregoing, Ms. Zhong had worked for Morgan Stanley Asia Limited from May 2008 to April 2017 and served as a Managing Director and the head of division of financial institutions in China. Ms. Zhong had served in various capacities, including an Executive Director of Goldman Sachs Gao Hua Securities Company Limited and a Vice President of China International Capital Corporation Limited. She had also worked for the National Audit Office of the PRC.

(2) Supervisors

Name	**Biographical details**
 **ZHAI Richeng** Chairman of Supervisory Committee	Born in July 1964, male, Chinese, a senior accountant and a member of the CPC. Mr. Zhai received a master's degree from China University of Mining and Technology in 2003. Mr. Zhai has served as the Chairman of the supervisory committee of the Company since August 2014 and the Director of Property Ownership Administration of the Company since June 2015 and the Director of Property Ownership Administration of CHNENERGY (formerly known as Shenhua Group Corporation) since June 2015. Mr. Zhai served as a General Manager of the financial department of Shenhua Group Corporation from November 2004 to June 2015. Prior to the foregoing, Mr. Zhai had served in various capacities, including Deputy Manager of the financial department of Shenhua Group Corporation, Director of financial division and Chief Accountant of Shenhua Zhunge'er Coal Company.
 **ZHOU Dayu** Supervisor	Born in October 1965, male, Chinese, a researcher and a member of the CPC. Mr. Zhou obtained a bachelor's degree in Economic Management at Peking University in 1986 and a master's degree in International Finance at Peking University in 2001. Mr. Zhou has served as a Supervisor of the Company since June 2016, the General Manager of the Capital Operation Department of the Company since March 2016, and the General Manager of the Capital Operation Department of CHNENERGY (formerly known as Shenhua Group Corporation) since March 2016. Mr. Zhou had been the General Manager of the Business Administration Department of the Company from November 2009 to March 2016, and the General Manager of the Business Administration Department of Shenhua Group Corporation Limited from November 2009 to March 2016. Prior to the foregoing, Mr. Zhou had successively held the post of the General Manager of the Planning Department and a Deputy Director of the Policy and Law Research Office of Shenhua Group Corporation.

Name	Biographical details
 **SHEN Lin** Supervisor	Born in May 1960, male, Chinese, a senior economist and a member of the CPC. Mr. Shen graduated from Harbin Institute of Technology in 2005 with a master's degree. Mr. Shen has served as an Employee Representative Supervisor of the Supervisory Committee of the Company since August 2014, Chief of the Department of Enterprise Culture of the Company since July 2010 and Chief of the Department of Party Building of CHNENERGY (formerly known as Shenhua Group Corporation) since July 2010. Mr. Shen served as a Deputy Chief of the Department of Enterprise Culture of the Company and Deputy Chief of the Department of Party Building of the Shenhua Group Corporation from 2009 to 2010. Prior to the foregoing, Mr. Shen had served for Shenhua Baoshen Railway Co., Ltd. in various positions such as Human Resource Manager, Deputy Chief Economist, Chief Economist, Deputy Secretary to the Party Committee and Secretary of the Discipline Committee to the Party

(3) *Senior management*

Name	Biographical details
 **LI Dong** Executive Director and Senior Vice President	Please refer to "Directors" for biographical details.

Name	Biographical details
 **WANG Jinli** Senior Vice President	Born in February 1959, male, Chinese, a researcher and senior engineer and a member of the CPC. Dr. Wang has approximately 30 years of operational and managerial experience in the coal industry in China. Dr. Wang received an EMBA Degree from Tsinghua University in 2009 and graduated from Liaoning University of Engineering and Technology with a Ph.D. degree in 2006. Dr. Wang has served as a Senior Vice President of the Company since September 2013, and Deputy General Manager and member of the Leading Party Members' Group of CHNENERGY since November 2017. Dr. Wang served as the Deputy General Manager of Shenhua Group Corporation from July 2013 to November 2017, a member of the Leading Party Members' Group of Shenhua Group Corporation from August 2016 to November 2017, Vice President of the Company between 2004 and 2013, and Chairman of Shenhua Coal Trading Co., Ltd., a subsidiary of Shenhua Group, and Chairman of Shenhua Trading Group Limited, a subsidiary of the Company between 2010 and 2014. Prior to the foregoing, Dr. Wang had served in various capacities, including Chairman of Shenhua Australia Holdings Pty Limited, Chairman, General Manager and Deputy General Manager of Shenhua Shendong Coal Company, Director of the Changchun Coal Technology Centre and Director of the Huichun Coal Mining Bureau.

Name	Biographical details
 **WANG Shumin** Vice President	Born in November 1962, male, Chinese, a senior engineer with the qualification as a professor and a member of the CPC. Dr. Wang has extensive experience in power business management. He graduated from Northeast Electric Power Institute with a bachelor's degree in 1985, obtained an MBA degree from China Europe International Business School in 2005 and obtained a doctor's degree in thermal engineering from North China Electric Power University in 2017. Dr. Wang has been serving as a Vice President of the Company since November 2015, Deputy General Manager and member of the Leading Party Members' Group of CHNENERGY since November 2017. Dr. Wang served as the Deputy General Manager and a member of the Leading Party Members' Group of Shenhua Group Corporation from April 2017 to November 2017. From March 2013 to November 2015, he served as the Chairman of Beijing Guohua Power Company Limited. From December 2010 to November 2015, he served as General Manager of Guohua Power Branch of the Company. From December 2010 to March 2013, he served as General Manager of Beijing Guohua Power Company Limited. Prior to the foregoing, Dr. Wang had previously served as the Deputy General Manager of Guohua Power Branch of the Company as well as the Deputy Manager of the Integrated Planning Department of North China Power Group Company.

Name	Biographical details
 **ZHANG Zifei** Vice President	Born in May 1958, male, Chinese, a senior engineer with the qualification as a professor and a member of the CPC. Mr. Zhang has extensive experience in coal business management. He graduated from Taiyuan University of Technology with a master's degree in 2004. Mr. Zhang has been serving as a Vice President of the Company since November 2015. Mr. Zhang served as an Employee Representative Director of Shenhua Group Corporation Limited from July 2014 to April 2016, the Chairman of Shenhua Shendong Coal Group Co., Ltd. from June 2011 to November 2015, the Chairman of Shenhua Xinjie Energy Co., Ltd. from January 2015 to November 2015 and the Chairman (legal representative) of Shenhua Wuhai Energy Company Limited from November 2016 to October 2017. Prior to the foregoing, Mr. Zhang had previously served as, among others, the Chairman of Shenhua Xinjiang Energy Co., Ltd., the assistant to General Manager, Deputy General Manager, Deputy Director of business development and coordination division and the Chief at Dahaize Mine and Bulianta Mine of Shenhua Shendong Coal Company.
 **ZHANG Jiming** Vice President	Born in November 1963, male, Chinese, a senior engineer and a member of the CPC. Mr. Zhang has extensive experience in chemical business administration. In 1985, he graduated from Liaoning Petrochemical School. Mr. Zhang has served as the Vice President of the Company since July 2016. Mr. Zhang served as the Chairman and the General Manager of China Shenhua Coal to Liquid, Chemical Co., Ltd. from November 2015 to July 2016, as the President of China Shenhua Coal to Liquid and Chemical Co., Ltd. from August 2012 to November 2015, as a Director and a Vice President of China Shenhua Coal to Liquid Co., Ltd. from January 2011 to August 2012. Prior to the foregoing, Mr. Zhang had successively held the post of the Chief Economist and the Deputy General Manager of China Shenhua Coal to Liquid Co., Ltd., the Vice Director and the Director of Liaoyang Petrochemical Branch Company Refinery Plant.

Name	Biographical details
 **LV Zhiren** Vice President	Born in November 1964, male, Chinese, a senior engineer and a member of the CPC. Mr. Lv has extensive experience in planning and investment. He received a bachelor's degree from Beijing Union University in 1987 and an EMBA degree from Shanghai University of Finance and Economics in 2005. Mr. Lv has served as a Vice President of the Company since March 2017. Mr. Lv served as a General Manager of the Strategic Planning Department of the Company from November 2004 to March 2017, a General Manager of the Strategic Planning Department of Shenhua Group Corporation from November 2009 to March 2017, and an Employee Representative Director of Shenhua Group Corporation from April 2016 to November 2017. Prior to the foregoing, Mr. Lv had successively held the post of engineer of the planning department, Deputy Director of the general division, Deputy Director and Director of the planning division and Deputy Department Manager of Shenhua Group Corporation Limited.
 **JIA Jinzhong** Vice President	Born in July 1963, male, Chinese, a professor-level senior engineer and a member of the CPC. Mr. Jia has extensive management experience in railway transportation enterprises. He graduated from Taiyuan Railway Machinery School in 1980 and obtained a master's degree from Southwest Jiaotong University in 2005. Mr. Jia has served as a Vice President of the Company since March 2017. Mr. Jia has served as the Chairman of Shuohuang Railway Development Co., Ltd., a subsidiary of the Company, from August 2014 to March 2017, and the Deputy General Manager of Shuohuang Railway Development Co., Ltd. from April 2011 to August 2014. Prior to the foregoing, Mr. Jia had successively held the post of Deputy Section Head of Yuanping Train Depot of Taiyuan Railway Branch, Deputy Director of Taiyuan West Railway Station of Taiyuan Railway Branch and Manager of Yuanping Branch of Shuohuang Railway Company.

Name	Biographical details
 **HUANG Qing** Secretary to the Board	Born in November 1965, male, Chinese, a senior engineer and a member of the CPC. Mr. Huang obtained a board secretary certification from the Shanghai Stock Exchange in 2004. Mr. Huang is a fellow of the Hong Kong Institute of Chartered Secretaries and a senior visiting scholar of the Eisenhower Foundation. Mr. Huang received a master's degree from Guangxi University in 1991. Mr. Huang has served as Secretary to the Board of the Company and Company Secretary of the Company since November 2004. Prior to the foregoing, Mr. Huang had served in various capacities, including Secretary to the Chairman of Shenhua Group Corporation, Deputy Director of the General Office of Shenhua Group Corporation, Deputy General Manager of Hubei Provincial Railway Company and Secretary to the Deputy Governor of the Hubei provincial government.
 **ZHANG Kehui** Chief Financial Officer	Born in February 1963, female, Chinese, a researcher, a certified accountant in China as well as a fellow of certified public accountants of Australia (FCPA) and a member of the CPC. Dr. Zhang has extensive experience in financial management and received a Ph.D. degree from Research Institute for Fiscal Science, Ministry of Finance of the PRC in 2014. Dr. Zhang has served as the Chief Financial Officer of the Company since January 2007, and Chairman of Shenhua Finance Company, a subsidiary of the Company, since August 2014. Prior to the foregoing, Dr. Zhang had served in various capacities, including Head of Internal Control and Audit Department of the Company, Deputy Manager of the financial department of Shenhua Group Corporation and Assistant to the General Manager of Shuohuang Railway Development Company Limited.

The Directors and supervisors of the Company have performed their duties in accordance with the requirements of the Articles of Association, Rules of Procedure of Board Meeting and Rules of Procedure of the Supervisory Committee Meeting of the Company. Under the decision and authorization of the Board, the senior management is responsible for business operation of the Company. The President is responsible for the Board and exercises his responsibilities as the President in accordance with the requirements of the Articles of Association. Senior Vice President Li Dong is in charge of safety supervision, environmental protection and energy conservation, coal and coke production, international cooperation and overseas business. Senior Vice President Wang Jinli is in charge of production operations and organization and sale of coal. Vice President Wang Shumin is in charge of the power generation business and capital operations. Vice President Zhang Zifei is in charge of property right management, legal affairs and material procurement. Vice President Zhang Jiming is in charge of tasks on social responsibilities and coal-to-chemical operations. Vice President Lv Zhiren is in charge of strategic planning, coordination of strategic cooperation with local enterprises and engineering construction. Vice President Jia Jinzhong is in charge of corporate governance, performance evaluation and the management of railways, ports and shipment transportation. Secretary to the Board Huang Qing is in charge of Board affairs, board of supervisory affairs, information disclosure and communication with regulatory authorities; and Chief Financial Officer Zhang Kehui is in charge of finance related works.

(II) Share incentive plan awarded to directors, supervisors and senior management during the reporting period

☐ Applicable ✔ Not applicable

II. POSITIONS OF EXISTING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(I) Positions held in the shareholders of the Company

Category	Name	Name of shareholder	Positions	Commencement of term of office	Expiry of term of office
Directors of China Shenhua	Ling Wen	Shenhua Group Corporation	Director	April 2010	November 2017
			General manager	May 2014	November 2017
			Deputy secretary to the Leading Party Members' Group	May 2016	November 2017
		CHNENERGY	Director, General Manager, deputy secretary to the Leading Party Members' Group	November 2017	–
	Han Jianguo	Shenhua Group Corporation	Director	July 2014	November 2017
			Deputy General Manager	August 2003	November 2017
			Chief Information officer	March 2009	November 2017
			Deputy secretary to the Leading Party Members' Group	December 2015	November 2017
		CHNENERGY	Deputy secretary to the Leading Party Members' Group	November 2017	–

Category	Name	Name of shareholder	Positions	Commencement of term of office	Expiry of term of office
	Li Dong	Shenhua Group Corporation	Deputy General Manager	August 2006	November 2017
			Member of the Leading Party Members' Group	April 2010	November 2017
		CHNENERGY	Deputy General Manager, member of the Leading Party Members' Group	November 2017	–
	Zhao Jibin	Shenhua Group Corporation	External Director	April 2015	November 2017
		CHNENERGY	External Director	November 2017	–
Supervisors of China Shenhua	Zhai Richeng	CHNENERGY	Director of Property Ownership Administration of Former Shenhua Group Corporation	June 2015	–
	Zhou Dayu	CHNENERGY	General manager of Capital Operation Department of Former Shenhua Group Corporation	March 2016	–
	Shen Lin	CHNENERGY	General manager of Department of Party Building of Former Shenhua Group Corporation	July 2010	–
Senior Management of China Shenhua	Wang Jinli	Shenhua Group Corporation	Deputy General Manager	July 2013	November 2017
			Member of the Leading Party Members' Group	August 2016	November 2017
		CHNENERGY	Deputy General Manager, member of the Leading Party Members' Group	November 2017	–
	Wang Shumin	Shenhua Group Corporation	Deputy General Manager, member of the Leading Party Members' Group	April 2017	November 2017
		CHNENERGY	Deputy General Manager, member of the Leading Party Members' Group	November 2017	–
	Zhang Zifei	Shenhua Wuhai Energy Company Limited	Chairman (legal representative)	November 2016	October 2017
	Lv Zhiren	Shenhua Group Corporation	Employee representative Director	April 2016	November 2017
			General manager of Department of Strategic Planning	November 2009	March 2017

(II) Positions held in other entities

Name	Name of shareholder	Positions	Commencement of term of office	Expiry of term of office
Zhao Jibin	China National Building Material Group Corporation	External Director	December 2014	–
Tam Wai Chu, Maria	Guangnan (Holdings) Limited	Independent Non-Executive Director	June 1999	November 2017
	Wing On Company International Limited	Independent Non-Executive Director	January 1994	–
	Minmetals Land Limited	Independent Non-Executive Director	April 1997	–
	Sinopec Kantons Holdings Limited	Independent Non-Executive Director	March 1998	–
	Tong Ren Tang Technologies Company Limited	Independent Non-Executive Director	October 2000	–
	Sa Sa International Holdings Limited	Independent Non-Executive Director	June 2004	–
	Nine Dragons Paper (Holdings) Limited	Independent Non-Executive Director	February 2006	–
	Macau Legend Development Limited	Independent Non-Executive Director	June 2013	–
Jiang Bo	Sinopec Oilfield Service Corporation	Independent Non-Executive Director	February 2015	–

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures for the remuneration of directors, supervisors and senior management	The remuneration package of directors and supervisors was submitted to the general meeting for approval after consideration and approval by the Remuneration Committee and the Board, and the remuneration package of senior management was submitted to the Board for approval after consideration and approval by the Remuneration Committee.
Basis for determining the remuneration of directors, supervisors and senior management	The remuneration package of relevant directors and supervisors was proposed by the Company in accordance with international and domestic practices and with reference to the remuneration of directors and supervisors of large-scale listed companies in China. The remuneration package of senior management of the Company was formulated by the Company in accordance with Provisional Measures for the Administration of the Annual Remuneration of the Senior Management.
Remuneration payable for remuneration of directors, supervisors and senior management	Please refer to "Changes in shareholding and remuneration" in this section
Total remuneration actually obtained by all directors, supervisors and senior management at the end of the reporting period	Please refer to "Changes in shareholding and remuneration" in this section

IV. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes during the reporting period

Name	Position	Particular of movements	Reason for the change
Zhang Yuzhuo	Chairman, Executive Director	Resigned	Resignation tendered on 27 March 2017 due to adjustments to work arrangements
Fan Hsu Lai Tai	Independent Non-Executive Director	Resigned	Expiry of term of office
Gong Huazhang	Independent Non-Executive Director	Resigned	Expiry of term of office
Guo Peizhang	Independent Non-Executive Director	Resigned	Expiry of term of office
Chen Hongsheng	Non-Executive Director	Resigned	Expiry of term of office
Tam Wai Chu, Maria	Independent Non-Executive Director	Elected	Elected at the annual general meeting on 23 June 2017
Jiang Bo	Independent Non-Executive Director	Elected	Elected at the annual general meeting on 23 June 2017
Zhong Yingjie, Christina	Independent Non-Executive Director	Elected	Elected at the annual general meeting on 23 June 2017

Name	Position	Particular of movements	Reason for the change
Ling Wen	President	Appointed	Approved at the twenty-second meeting of the third session of the Board on 4 January 2017
Han Jianguo	President	Resigned	Resigned from the position of President on 4 January 2017 due to adjustments to work arrangements, but continued to serve as an Executive Director and relevant posts in committees under the Board
Lv Zhiren	Vice President	Appointed	Approved at the twenty-fourth meeting of the third session of the Board on 17 March 2017
Jia Jinzhong	Vice President	Appointed	Approved at the twenty-fourth meeting of the third session of the Board on 17 March 2017
Wang Yongcheng	Vice President	Resigned	Resigned on 6 November 2017 due to adjustments to work arrangements

(II) Changes after the reporting period

Name	Position	Particular of movements	Reason for the change
Ling Wen	Chairman Vice Chairman, President	Appointed Resigned	Considered and approved at the eighth meeting of the fourth session of the Board on 2 January 2018 due to work arrangements

V. SANCTION FROM SECURITIES REGULATORY AUTHORITIES IN THE LAST THREE YEARS

☐ Applicable ✔ Not applicable

VI. OTHER SIGNIFICANT MATTERS

As of 31 December 2017, Mr. Lv Zhiren, the Vice President of the Company, held 1,500 A shares of the Company. Mr. Lv Zhiren did not transfer any shares of the Company during the reporting period. During the reporting period, none of the change in shareholding of other directors, supervisors or senior management of the Company shall be disclosed pursuant to the Administrative Rules Concerning the Holding and Change of Shares held by Directors, Supervisors and Senior Management of A Listed Company promulgated by the CSRC.

As of 31 December 2017, none of the directors, supervisors or chief executives of the Company hold any shares of the Company, nor did they have any interest or short position in the shares or underlying shares of the Company or of any of its associated corporations within the meaning of Part XV of the SFO (Chapter 571 of the Laws of Hong Kong) required, pursuant to section 352 of the SFO, to be recorded in the register which shall be kept by the Company, or to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

The securities transactions of the directors of the Company have been carried out in accordance with the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 of the Hong Kong Listing Rules. The Model Code is also applicable to the supervisors and senior management of the Company. The directors, supervisors or senior management have confirmed that they have fully complied with the Model Code in 2017 or during their respective terms of office.

All the directors and supervisors have provided relevant training records to the Company and have participated in training programs in accordance with relevant requirements by regulatory authorities. The Secretary to the Board of the Company has participated in training programs organized by a number of institutions including the stock exchanges where the shares are listed and The Hong Kong Institute of Chartered Secretaries for more than 15 hours in accordance with relevant requirements.

When considering any matters or transactions at any board meeting, the directors are required to declare any direct or indirect interests and recuse themselves where appropriate. Saved as their own service contracts and agreements as set out in the announcement dated 19 January 2017 in relation to the establishment of Shenhua Guohua Jiangsu Power Sales Co., Ltd. and the announcement dated 29 August 2017 in relation to the signing of Framework JV Agreement, none of the directors and supervisors of the Company has any material personal interests, directly or indirectly, in material contracts, transactions or arrangements entered into by the Company or any of its subsidiaries in 2017 and subsisting during or at the end of the year of 2017; the directors and supervisors of the Company have confirmed that they and their associates have not entered into any connected transaction with the Company and its subsidiaries.

The Company has entered into service contracts with all of its directors and supervisors. None of the directors or supervisors has entered into or proposed to enter into any service contract with members of the Group which cannot be terminated by the Group within one year without any compensation (other than the statutory compensation). The Company has maintained appropriate liability insurance for its directors, supervisors and senior management. Directors of the Company are entitled to be indemnified for the verification and inspection costs, individual investigation costs, tax liabilities and loss prevention expenses incurred by or relating to the execution and performance of duties subject to the applicable laws and under the coverage of directors liability insurance taken out by the Company for the directors. These provisions are valid during the period ended 31 December 2017 and remain to be valid as at the date of this report.

Other than their working relationships in the Company, none of the directors, supervisors or the senior management has any financial, business or family relationship or any relationship in other material aspects with each other. For the year ended 31 December 2017, the Company had not granted any equity securities or warrants to its directors, supervisors and senior management or their respective spouses or children under the age of 18.

VII. EMPLOYEES OF THE GROUP

(I) Employees

Number of current employees of the headquarter of the Company *(Number of person)*	688
Number of current employees of the branches/subsidiaries of the Company *(Number of person)*	88,369
Total number of current employees of the Group *(Number of person)*	**89,057**
Number of retired employees in respect of which the Company and subsidiaries bore cost *(Number of person)*	13,631

Function

Function	**Number of person**
Operation and repair	55,168
Management and administration	13,653
Finance	1,772
Research and development	2,380
Technical support	11,708
Sales and marketing	933
Others	3,443
Total	89,057

Education Level

Education Level	Number of person
Postgraduate and above	3,024
University graduate	30,735
College graduate	23,821
Specialized secondary school graduate	13,576
Graduate of technical school, high school and below	17,901
Total	89,057

(II) Remuneration policy

The Company has formulated a remuneration policy comprising basic salary and performance assessment. The remuneration policy is competitive within the industry and is favoring the frontline employees.

(III) Training program

The Company has established a training system with different levels and channels to provide the employees with appropriate training in job skills, safe production and group management etc. During 2017, the accrued capital used for training was approximately RMB302 million. The number of attendances in training was approximately 635.1 thousand with training hours of approximately 4.19 million hours in aggregate. For details, please refer to the 2017 CSR Report of the Group.

(IV) Outsourced Work

Total number of working hours of outsourced work	Approximately 42.298 million hours
Total remuneration paid for outsourced work	RMB2.528 billion

I. CORPORATE GOVERNANCE

The Board is responsible for implementing good corporate governance of the Company. The Company has been in compliance with the requirements of corporate governance policies as set out in Appendix 14 of the Hong Kong Listing Rules to establish its own system of corporate governance.

The convening, voting and disclosure procedures of board meetings of the Company, rules of procedure of the Board and procedures for nomination and appointment of Directors are in compliance with relevant requirements. Being a standing decision-making body of the Company, the Board is accountable to the shareholders' general meeting, and exercises function and power in accordance with the requirements of article 128 of the Articles of Association and relevant applicable regulatory requirements. Being a standing executive body of the Company, operating management comprising senior management including the President, is accountable to the Board and exercises function and power in accordance with the requirements of article 146 of the Articles of Association and relevant applicable regulatory requirements. The Articles of Association sets out the respective duties of the Chairman of the Board and the President in detail. On 27 March 2017, Dr. Zhang Yuzhuo resigned as the Chairman of the Board, an Executive Director and the relevant positions of the committees under the Board. According to the Articles of Association of the Company, Dr. Ling Wen, the Vice Chairman and President, would perform the functions and powers of the Chairman of the Board until a new Chairman of the Board was elected. On 2 January 2018, Dr. Ling Wen was elected as the Chairman of the Board and ceased to be the Vice Chairman and President of the Company.

Save as disclosed above, during the year ended 31 December 2017, the Company has been in full compliance with the provisions of principle and codes and most of the recommended best practices as specified therein. For the terms of functions and powers of the Board and the Board Committees under the Corporate Governance Code, please refer to the Articles of Association, Rules of Procedure of the Board and the Board Committees, which have been published on the websites of the stock exchanges where the Company is listed and on the Company's website. During the reporting period, the Company did not make any amendments to the Articles of Association.

The Board of the Company has set out the board diversity policy for members of the Board, which was set out in the terms of reference of the nomination committee of the Board of the Company and has been disclosed. When selecting the candidates in accordance with the board diversity policy of the Company, the Board will use a series of diversified terms, including but not limited to gender, age, culture and educational background, race, skills, knowledge and professional experience as standard, and will determine in conjunction with the characteristics and role of the personnel. During the reporting period, the shareholders' general meeting of the Company elected the fourth session of the Board of the Company. As at the end of the reporting period, the Board of the Company consisted of 7 Directors, including 3 Executive Directors, 1 Non-Executive Director and 3 Independent Non-Executive Directors; among whom 3 female Directors were included. Directors are from various domestic and overseas industries, and the composition of the members features diversity. Each Director's knowledge base and field of expertise are professional and complementary in the overall board structure, which guarantees the scientific decision-making of the Board.

For the composition of the Board and securities transactions, continuous training and term of office of the Directors, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" of this report. For the auditors' remuneration, please refer to the section headed "Significant Events" of this report. For the strategy and risk assessment of the Company, please refer to the section headed "Discussion and Analysis of Operations" of this report.

II. GENERAL MEETINGS

1. Shareholders' rights

As owners of the Company, the shareholders of the Company are entitled to the rights as stipulated in laws, administrative regulations and the Articles of Association of China Shenhua. The shareholders' general meeting is the highest authoritative body of the Company, through which shareholders can exercise their rights. The controlling shareholder takes part in the Company's operations and decision-makings through shareholders' general meetings and the Board.

Pursuant to Articles 68 and 74 of the Articles of Association of China Shenhua, shareholders may submit written request to the Board for the convening of extraordinary general meetings or class meetings and submit proposals to the Company at general meetings. Upon providing the Company with written evidence of the class and number of shares of the Company held, and following verification of the shareholders' identity by the Company, shareholders are entitled to inspect the relevant information of the Company or obtain the Articles of Association, the register of shareholders, minutes of general meetings, resolutions of meetings of the Board and the supervisory committee, regular reports and financial and accounting reports, etc.

The Company discloses information in strict compliance with the listing rules of its places of listing. The Company makes its investor relations hotline, fax and email available (please see the section headed "Company Profile and Major Financial Indicators" in this report for details). The Company has established an effective communication channel with shareholders through such information disclosure system and an investor reception system.

2. Convening of general meetings during the reporting period

Meetings	Date	Inquiry index for the designated website for publishing the voting results	Date of disclosure of the publication of the voting results
2016 Annual General Meeting	23 June 2017	The website of the Shanghai Stock Exchange	24 June 2017

All the resolutions tabled at the general meeting above were passed. The voting results were disclosed on the website of the Hong Kong Stock Exchange on 23 June 2017 and the website of the Shanghai Stock Exchange on 24 June 2017.

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

The shareholders' representative, supervisors' representative, witness lawyers and the representative of Computershare Hong Kong Investor Services Limited acted as scrutineer at the general meeting. The PRC legal advisor of the Company issued the legal opinion. Representatives of the auditors attended the Annual General Meeting and announced their audit opinions.

III. PERFORMANCE OF DUTIES OF THE BOARD

(I) Attendance at Board meetings and general meetings

Name of Director	Independent Director or not	Attendance at Board meetings: Required attendance at Board meetings this year	Attendance in Person	Attendance by correspondence	Attendance by proxy	Absence	Absent at two consecutive meetings in person or not	Attendance at general meetings/ required attendance
Current Directors as at the end of the reporting period								
Ling Wen	No	14	14	6	0	0	No	1/1
Han Jianguo	No	14	14	6	0	0	No	1/1
Li Dong	No	14	14	6	0	0	No	1/1
Zhao Jibin	No	14	14	6	0	0	No	1/1
Tam Wai Chu, Maria	Yes	7	7	6	0	0	No	0/0
Jiang Bo	Yes	7	7	2	0	0	No	1/0
Zhong Yingjie, Christina	Yes	7	7	2	0	0	No	1/0
Resigned Directors during the reporting period								
Zhang Yuzhuo	No	4	4	2	0	0	No	0/0
Fan Hsu Lai Tai	Yes	7	6	4	1	0	No	1/1
Gong Huazhang	Yes	7	7	5	0	0	No	1/1
Guo Peizhang	Yes	7	7	4	0	0	No	1/1
Chen Hongsheng	No	7	7	4	0	0	No	1/1

Notes:

1. On 27 March 2017, Zhang Yuzhuo resigned as a Director of the Company;

2. On 23 June 2017, the Directors of the fourth session of the Board were elected at the 2016 Annual General Meeting of China Shenhua, among whom the three of Tam Wai Chu, Maria, Jiang Bo and Zhong Yingjie, Christina were newly appointed as independent Directors. The Directors of the third session of the Board, namely, Fan Hsu Lai Tai, Gong Huazhang, Guo Peizhang and Chen Hongsheng retired upon expiry of their terms of office.

Number of Board meetings held during the year	14
Including: Number of meetings held on-site	3
Number of meetings held by correspondence	6
Number of meetings held on-site with correspondence	5

In 2017, the Board of the Company held a total of 14 meetings, at which all the proposals were considered and approved. Details of the meetings are as follows:

No.	Name	Date	Methods
1	The 21st meeting of the third session of the Board	3 January 2017	Correspondence
2	The 22nd meeting of the third session of the Board	4 January 2017	On-site with correspondence
3	The 23rd meeting of the third session of the Board	19 January 2017	Correspondence
4	The 24th meeting of the third session of the Board	17 March 2017	On-site
5	The 25th meeting of the third session of the Board	28 April 2017	On-site
6	The 26th meeting of the third session of the Board	5 May 2017	Correspondence
7	The 27th meeting of the third session of the Board	16 June 2017	Correspondence
8	The 1st meeting of the fourth session of the Board	23 June 2017	On-site with correspondence
9	The 2nd meeting of the fourth session of the Board	23 June 2017	On-site with correspondence
10	The 3rd meeting of the fourth session of the Board	3 July 2017	Correspondence
11	The 4th meeting of the fourth session of the Board	3 August 2017	Correspondence
12	The 5th meeting of the fourth session of the Board	25 August 2017	On-site with correspondence
13	The 6th meeting of the fourth session of the Board	28 August 2017	On-site with correspondence
14	The 7th meeting of the fourth session of the Board	27 October 2017	On-site

(II) Performance of duties of independent Directors

During the reporting period, the third session of the Board of the Company had three Independent Non-Executive Directors, namely Fan Hsu Lai Tai, Gong Huazhang and Guo Peizhang, among whom Mr. Gong Huazhang is an accounting professional; the fourth session of the Board of the Company had three Independent Non-Executive Directors, namely Tam Wai Chu, Maria, Jiang Bo and Zhong Yingjie, Christina, among whom Mr. Jiang Bo and Ms. Zhong Yingjie, Christina are accounting professionals.

The Company has received written confirmation from each of the Independent Non-Executive Directors confirming their independence. The Company is of the view that all of the Independent Non-Executive Directors are independent. The number and background of the independent Directors are in compliance with the requirements of the listing rules of the places of listing.

During the reporting period, the independent Directors of the Company strictly complied with the requirements of relevant laws and regulations, the Articles of Association of China Shenhua, relevant rules of procedure of meetings and the independent Directors system of China Shenhua. They maintained their independence as independent Directors, performed their functions of supervision, participated in the formation of various important decisions of the Company and reviewed regular reports and financial reports of the Company. Therefore the independent Directors of the Company played an important role in the regulated operation of the Company and protected the legitimate interests of minority shareholders.

The Company ensured that proper conditions are in place for independent Directors to perform their duties and proactively adopted opinions and suggestions from independent Directors. The Company formulated the independent Directors system to provide, in a systematic way, guarantee for the independent Directors to perform their duties, and designated departments to undertake work related to independent Directors' affairs and independent board committee, assisting the independent Directors in conducting research and investigation, convening meetings and expressing independent opinions, etc..

As the Independent Non-Executive Directors of China Shenhua, three Directors, namely Tam Wai Chu, Maria, Jiang Bo and Zhong Yingjie, Christina, issued independent opinions on the performance of duties of Dr. Ling Wen as the President of China Shenhua and the General Manager of CHNENERGY concurrently from January 2017 to January 2018 as follows: 1. Dr. Ling Wen was diligent and responsible and led the management of the Company to implement the development strategies and mission targets formulated by the Board, which resulted in the satisfactory operating results of the Company and continuous improvement in shareholders' returns; 2. Dr. Ling Wen fulfilled his commitments, handled properly the relationship between China Shenhua and its controlling shareholder, which safeguarded the interests of the Company and the shareholders as a whole, and did not prejudice the interests of China Shenhua and its minority shareholders due to his concurrent positions.

For the attendance of independent Directors at Board meetings and general meetings, please refer to the sections on the attendance at Board meetings and general meetings of the Company.

Dissenting views of independent Directors on matters of the Company:

☐ Applicable ✔ Not applicable

(III) OTHERS

Implementation of resolutions passed at the general meetings by the Board in 2017:

No.	General Meeting	Subject Matter	Status
1	2016 Annual General Meeting	To approve the profit distribution proposal of the Company for the year 2016 and authorize the Chairman and Vice Chairman (President) to specifically implement the distribution of special dividends.	Implementation of 2016 profit distribution proposal was completed in the third quarter of 2017.
2	2016 Annual General Meeting	To approve the special dividend distribution proposal of the Company and authorize the Chairman and Vice Chairman (President) to implement the special dividend distribution proposal.	Implementation of special dividend distribution proposal was completed in the third quarter of 2017.
3	2016 Annual General Meeting	To approve the appointment of external auditors for the year 2017 and authorize a committee comprising of Chairman and Vice Chairman (President) and Chairman of the Audit Committee to determine the remuneration of the auditors.	For details of the appointment and remuneration of auditors for the year 2017, please refer to the section headed "Significant Events" of this report.
4	2016 Annual General Meeting	To approve the authorization of the Board of the Company to determine the issuance of bonds of the Company within the size of issuance; after determining the type, amount, term and use of proceeds of each issuance of bonds within the scope of authority, the Board may redelegate the President and Chief Financial Officer of the Company to determine and implement other matters in relation to the issuance.	During the reporting period, no corporate bonds were issued by the Company.

IV. THE PERFORMANCE OF DUTIES OF THE COMMITTEES UNDER THE BOARD DURING THE REPORTING PERIOD

(I) Composition of the committees

The Company has established five committees under the Board, and the details are as follows:

	The fourth session of the Board committees	The third session of the Board committees
Strategy Committee	Ling Wen (Chairman), Han Jianguo, Zhao Jibin	Zhang Yuzhuo (Chairman), Ling Wen, Han Jianguo
Audit Committee	Zhong Yingjie, Christina (Chairwoman), Tam Wai Chu, Maria, Jiang Bo	Gong Huazhang (Chairman), Fan Hsu Lai Tai, Guo Peizhang, Chen Hongsheng
Remuneration Committee	Tam Wai Chu, Maria (Chairwoman), Jiang Bo, Zhong Yingjie, Christina	Fan Hsu Lai Tai (Chairwoman), Gong Huazhang, Zhao Jibin
Nomination Committee	Jiang Bo (Chairwoman), Han Jianguo, Zhao Jibin	Guo Peizhang (Chairman), Zhang Yuzhuo, Fan Hsu Lai Tai
Safety, Health and Environment Committee	Zhao Jibin (Chairman), Li Dong, Tam Wai Chu, Maria, Zhong Yingjie, Christina	Guo Peizhang (Chairman), Ling Wen, Han Jianguo, Li Dong

Notes: 1. On 27 March 2017, Zhang Yuzhuo resigned as a Director of the Company;

2. On 23 June 2017, the Directors of the fourth session of the Board were elected at the 2016 annual general meeting of China Shenhua.

(II) The duties and performance of duties of the committees

During the reporting period, each committee under the Board did not express any dissenting views in performing their duties. The performance of duties of each committee is set out as follows:

1. Strategy Committee

The principal duties of the Strategy Committee are to conduct researches and submit proposals regarding the long-term development strategies and material investment decisions of the Company; to conduct researches and submit proposals regarding material investments and financing plans which require approval of the Board; to conduct researches and submit proposals regarding material capital operations and assets operation projects which require approval from the Board; to conduct researches and submit proposals regarding other material matters that may affect the Company's development; to examine the implementation of the above matters; and to execute other matters as authorized by the Board.

In 2017, the Strategy Committee of the Board held three meetings to consider proposals such as the formulation of the Administrative Measures of Strategy and Planning, the establishment of a JV company, the 2018 annual production plan, and the 2018 annual investment plan of China Shenhua, all of which were approved at the meetings and all members attended all meetings in person.

2. Audit Committee

The main duties of the Audit Committee were to supervise and assess the work of the external audit institutions; to guide the internal audit work; to review and provide opinions on the financial reports of the Company; to evaluate the effectiveness of risk management and internal control; to coordinate communications between the management, internal audit department, relevant departments and the external audit institutions; other duties authorized by the Board and other issues related to the relevant laws and regulations. During the reporting period, the Audit Committee fulfilled its duties strictly in accordance with the Rules of Procedure of Meetings of the Audit Committee of the Board, Rules on Work of the Audit Committee of the Board and Rules on Work of Annual Reports of the Audit Committee of the Board of China Shenhua.

In 2017, the Audit Committee held ten meetings to consider proposals such as the financial reports and internal control reports of the Company, advising on maintaining reasonable size of monetary capital, improving the utilization of capital and rectifying problems found in internal control assessment, all of which were approved at the meetings and all members attended all meetings in person.

The Audit Committee has performed required procedures for the preparation of the 2017 annual report and internal control report of the Company:

(1) Before the accounting firms for 2017, namely Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu ("Deloitte"), proceeded with on-site auditing, the Audit Committee had consulted with Deloitte to determine the schedule of the Company's 2017 audit. On 20 October 2017, the Audit Committee reviewed the Company's plans for the audit plan for the year 2017 and the internal control assessment plan for the year 2017.

(2) After Deloitte had issued its preliminary audit opinions, the Audit Committee reviewed the draft internal control assessment report and financial statements for 2017. On 28 February 2018, the Audit Committee reviewed the 2017 Assessment Report on Internal Control (Draft) and 2017 Financial Statements (Draft) of China Shenhua prepared by the Company.

(3) The Audit Committee received briefings by the management to understand the overall operation of the Company during the reporting period. On 19 March 2018, the Audit Committee received a briefing given by the Financial Department of the Company on the accounting policies and the preparation of the financial statements.

(4) Deloitte completed all audit procedures within the agreed time and intended to issue a standard unqualified audit report for 2017 to the Audit Committee. On 19 March 2018, the Audit Committee voted on and formed resolutions in respect of the audited annual financial and accounting statements, the assessment report on internal control and the corporate social responsibility report for the year 2017 and agreed to submit such reports to the Board for consideration.

The Audit Committee discussed separately with the external auditors and no inconsistency was found in the briefings by the management.

3. Remuneration Committee

The main duties of the Remuneration Committee are to make recommendations to the Board on formulation of the remuneration plan or proposal for Directors, supervisors, President and other senior management, including but not limited to the criteria, procedures and the major systems of performance assessment, key incentive and punishment plans and systems; to examine how Directors, supervisors, President and other senior management of the Company perform their duties and carry out annual performance assessment on them; to supervise the implementation of the remuneration system of the Company; to ensure that none of the Directors or any of their associates can determine their own remuneration; and to execute other matters as authorized by the Board.

In 2017, the Remuneration Committee held one meeting to consider proposals including the remuneration packages of Directors, supervisors and senior management for the year 2016, all of which were approved at the meeting and all members attended the meetings in person. During the reporting period, the Remuneration Committee reviewed the remuneration management system of the Company and the remuneration level for Directors, supervisors, President and other senior management for the relevant period.

The Remuneration Committee is of the view that the Company has a well-established remuneration management system which reflects the economic benefit-oriented philosophy of a listed company and political, social and economic responsibility of a state-owned enterprise. The Remuneration Committee agrees to the remuneration management systems of the Company.

4. Nomination Committee

The main duties of the Nomination Committee are to formulate the board diversity policy, regularly review the structure, size and diversity of the Board, and to make recommendations to the Board with regard to any proposed changes; to assess and verify the independence of independent non-Executive Directors; to draft procedures and criteria for election and appointment of Directors, the President and other senior management and make recommendations to the Board; to extensively seek for qualified candidates of Directors, the President and other senior management; to examine the aforementioned candidates and make recommendations; to nominate candidates for members of the Board Committees (other than members of the Nomination Committee and the Chairman of any Board Committee); to draft development plans for the President, other senior management and key reserve talents; to review the board diversity policy where appropriate, and review the quantitative objectives set up by the Board to implement the board diversity policy and their progress of achievement, as well as to disclose the results of review in the Corporate Governance Report annually; and to carry out any other matters as authorised by the Board.

In 2017, the Nomination Committee held three meetings to consider proposals including the nominations of candidates for Vice President, Directors of the fourth session of the Board and members of relevant committees under the the fourth session of Board, all of which were approved at the meetings and all members attended all meetings in person.

5. Safety, Health and Environment Committee

The principal duties of the Safety, Health and Environment Committee are to supervise the implementation of health, safety and environmental protection plans of the Company; to make recommendations to the Board or the President on material issues in respect of health, safety and environmental protection of the Company; to inquire into the material incidents regarding the Company's production, operations, property assets, staff or other facilities; as well as to review and supervise the resolution of such incidents and carry out other matters as authorised by the Board.

In 2017, the Safety, Health and Environment Committee held one meeting to consider the 2016 CSR Report, and the proposal was approved at the meeting and all members attended the meeting in person.

V. THE SUPERVISION OPINION OF THE SUPERVISORY COMMITTEE

During the reporting period, the Supervisory Committee did not have any dissenting view over the matters supervised by the Supervisory Committee. For details, please refer to the section headed "Supervisory Committee's Report" in this report.

VI. EXPLANATION OF INDEPENDENCE AND COMPETITION

As a transitional measure for the prevention of competition, since December 2010, the Company was entrusted by the original Shenhua Group Corporation upon the completion of relevant procedures to provide daily operation management services for its existing assets and businesses. As at the end of the reporting period, the President, two Senior Vice Presidents and one Vice President of the Company acted concurrently as the General Manager and deputy General Managers of CHNENERGY.

The Company is principally engaged in the production and sale of coal and power, as well as railway, port, shipping transportation and coal-to-olefins. Currently, the major coal, power and olefins products produced by the existing assets of CHNENERGY, the controlling shareholder of the Company, are similar to those produced by the Company in terms of type and quality, but each company also has its relatively independent regional markets.

The Company and Shenhua Group Corporation entered into a Non-competition Agreement in 2005. Pursuant to the agreement, Shenhua Group has committed not to compete with the Company in respect of the Company's principal businesses whether in or outside of the PRC, and granted the Company an option and pre-emptive right to acquire from Shenhua Group any potential competing business. On 1 March 2018, the "Resolution regarding the Supplemental Agreement to the Non-Competition Undertaking Agreement that only takes effect when relevant conditions are met with CHNENERGY" was reviewed and passed at the ninth meeting of the fourth session of the Board of the Company. In respect of the proposed signing of the "Supplemental Agreement to the Non-Competition Undertaking Agreement" between China Shenhua and CHNENERGY, is pending approval at the general meeting of the Company. For details, please refer to the H share announcement of the Company dated 1 March 2018 and the A shares announcement of the Company dated 2 March 2018.

Save as disclosed above, during the reporting period, there was no material difference between the corporate governance of the Company and the relevant rules and requirements of the CSRC. China Shenhua has an independent and complete business system as well as a market-oriented self-operation capability. The Company is independent from its controlling shareholder in terms of business, personnel, assets, organization and finance.

VII. THE EXAMINATION AND EVALUATION AND THE INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT

The Company established the remuneration package of the senior management in accordance with the Provisional Measures for the Administration of the Annual Remuneration of the Senior Management of China Shenhua Energy Company Limited. The Company has adopted a performance appraisal system for senior management which combines annual appraisal of operational performance and appraisal of operational performance over the terms of office. Such annual appraisal and appraisal over the terms of office are conducted based on the letter of responsibility of operational performance signed by the Board and the management.

The remuneration of the management is determined in accordance with the Provisional Measures for the Administration of the Annual Remuneration of the Senior Management. In addition to the basic salary, the Board of the Company conducts appraisal based on the performance of the management, and a performance bonus is determined based on the results of such appraisal.

VIII. INTERNAL CONTROL AND RISK MANAGEMENT

The Company has established a risk-oriented internal control system. The internal control and risk management procedures of the Company include risk assessment and reporting at the beginning of the year, quarterly major risk monitoring, daily system risk review and specialized supervision and inspection on internal control, and annual internal control evaluation, forming an integrated closed-loop management system. Also, a hierarchical work organizational structure comprising the Board and the Audit Committee, the functional departments of the headquarters and the subsidiaries and branches of the Company was established to safeguard the effective operation of internal control and risk management. The Board is responsible for risk management and internal monitoring and control systems, and is accountable for reviewing the effectiveness of such systems. The Board conducts review on risk management and internal monitoring and control systems once a year. The Board considers that the risk management and internal monitoring and control systems of the Group were effectively operated in 2017.

It is the responsibility of the Board of the Company to establish a sound and effective internal control and evaluate its effectiveness, and make bona fide disclosure on the Self-assessment Report on Internal Control in accordance with the requirements under the Enterprise Internal Control Normative System. The Supervisory Committee is responsible for the supervision on the internal control system established and implemented by the Board, while the management level is responsible for the organization and guidance of the daily operation of internal control within the enterprise.

The objectives of the internal control of the Company are to provide reasonable assurance on lawful operation and management, asset safety and the truthfulness and completeness of financial reports and relevant information, to enhance operation efficiency and effectiveness, and to facilitate the implementation of development strategies. As there are inherent limitations on internal control, assurance can only be provided for the above objectives to a certain reasonable extent. In addition, there are certain risks in predicting the effectiveness of future internal control based on the results of assessment on internal control given to the inappropriate internal control or the loosened level of compliance with policies and procedures on internal control that may be resulted by changes in different circumstances.

An internal control supervision and inspection mechanism was formed to conduct evaluation on internal control on annual basis. Procedures for internal control evaluation include: formulating a proposal for internal control evaluation, establishing a working committee of internal control inspection, conducting self-evaluation on internal control, conducting evaluation on internal control by inspectors, communicating and identifying deficiencies in internal control, rectifying deficiencies in internal control and preparing report on internal control. The Company has evaluated the effectiveness of internal control for 2017 in accordance with the aforementioned procedures.

The 2017 Proposal for Internal Control Evaluation of the Company was considered and approved by the Audit Committee under the Board, and the 2017 Annual Report on Internal Control Evaluation was considered and approved by the Board. The Board and the Audit Committee of the Company are of the view that such inspection and supervision mechanism is able to evaluate the effectiveness of internal control and risk management operation of the Company.

According to the evaluation, during the reporting period, all businesses and matters involving major risks have been included in the scope of evaluation, and internal control system has been established for and effectively implemented on major businesses and matters, which accomplished the objectives of internal control of the Company.

As presented in the 2017 Annual Self-assessment Report on Internal Control of the Board, no material defects were found in the internal control of financial reporting as at the base date of the Assessment Report on Internal Control, pursuant to the identification of material defects in the internal control over the financial reporting of the Company. The Board is of the opinion that the Company has maintained effective internal control over its financial reporting in all material aspects in accordance with the requirements under the Enterprise Internal Control Normative System and relevant regulations and its supplementary guidelines as well as other regulatory requirements on internal control. Based on the identification of material defects in the internal control over non-financial reporting of the Company, no material defects were identified by the Company in the internal control over non-financial reporting as at the base date of the Assessment Report on Internal Control. Nothing that would affect the evaluation result of the effectiveness of internal control occurred from the base date of the Assessment Report on Internal Control to the date of issuance of the Assessment Report on Internal Control.

Regarding the treatment and publishing of inside information, the Company has formulated internal systems such as the Administrative Measures for Preventing Insider Trading and the Internal Reporting System for Material Matters, which stipulated, among others, the scope of insider information and insiders, reporting process, registration and filing, and prohibited behaviors. The scope of insiders is under strict control so as to eliminate the risk of insider information leakage.

Material defects in the internal control during the reporting period:

☐ Applicable ✔ Not applicable

IX. DESCRIPTION OF THE AUDIT REPORT ON INTERNAL CONTROL

Deloitte Touche Tohmatsu Certified Public Accountants LLP, engaged by the Company, has issued the standard unqualified Audit Report on Internal Control. The Audit Report on Internal Control is of the opinion that as at 31 December 2017, China Shenhua had maintained effective internal control over its financial reporting in all material aspects in accordance with the Basic Standard for Enterprise Internal Control and the relevant requirements. The above audit opinions are in line with the opinions set out in the Self-assessment Report of the Board.

Please refer to the relevant announcement disclosed by the Company on the website of the Shanghai Stock Exchange on 24 March 2018 for the 2017 Assessment Report on Internal Control and Audit Report on Internal Control.

Section X Supervisory Committee's Report

The Supervisory Committee of the Company had, based on the attitude of being responsible to all shareholders, performed their supervisory duties faithfully and carried out their work proactively and effectively to protect the lawful interests of the Company and its shareholders in accordance with the relevant requirements under the Company Law of the People's Republic of China and the Articles of Association.

I. PERFORMANCE OF DUTIES OF THE SUPERVISORY COMMITTEE

During the reporting period, in compliance with the requirements of the Articles of Association and the Rules of Procedures of Meetings of the Supervisory Committee, the Supervisory Committee of the Company conducted strict supervisions on the lawful operations, financial position and the performance of duties of the Board and the management of the Company.

In 2017, the Supervisory Committee of the Company held seven meetings in total.

Meeting	Date	Venue	Method of Meeting	Attendance of supervisors	Subject matter	Poll results
The 12th meeting of the third session of the Supervisory Committee	17 March	Beijing	On-site	All	Proposal of the 2016 Annual Report of the Company	Passed unanimously
					Proposal of the 2016 CSR report of the Company	Passed unanimously
					Proposal of the 2016 Assessment Report on Internal Control of the Company	Passed unanimously
					Proposal of the preparation for impairment of assets of the Company	Passed unanimously
					Proposal of the 2016 Financial Report of the Company	Passed unanimously
					Proposal of the 2016 profit distribution plan of the Company	Passed unanimously
					Proposal of the special dividend distribution plan of the Company	Passed unanimously
					Proposal of the Supervisory Committee's report of the Company for the year 2016	Passed unanimously
The 13th meeting of the third session of the Supervisory Committee	28 April	Beijing	On-site	All	Proposal of the 2017 First Quarterly Report of the Company	Passed unanimously
					Proposal of the 2017 First Quarterly Financial Report of the Company	Passed unanimously
The 14th meeting of the third session of the Supervisory Committee	5 May	Beijing	In writing	All	Proposal of the determination of the candidates for the shareholders' representative supervisors of the fourth session of the Supervisory Committee of the Company	Passed unanimously
The first meeting of the fourth session of the Supervisory Committee	23 June	Beijing	On-site	All	Proposal of the election of the Chairman of the Supervisory Committee of the Company	Passed unanimously

Meeting	Date	Venue	Method of Meeting	Attendance of supervisors	Subject matter	Poll results
The second meeting of the fourth session of the Supervisory Committee	25 August	Beijing	On-site	All	Proposal of the 2017 Interim Report of the Company	Passed unanimously
					Proposal of the 2017 Interim Financial Report of the Company	Passed unanimously
The third meeting of the fourth session of the Supervisory Committee	28 August	Beijing	On-site	All	Proposal of the establishment of a joint venture company	Passed unanimously
The fourth meeting of the fourth session of the Supervisory Committee	27 October	Beijing	On-site	All	Proposal of the 2017 Third Quarterly Report of the Company	Passed unanimously
					Proposal of the 2017 Third Quarterly Financial Report of the Company	Passed unanimously

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

The Supervisory Committee is of the opinion that the Board and the management of the Company have acted in strict accordance with the Company Law, the Articles of Association and the relevant regulations of the jurisdiction where the Company is listed, performed their duties with integrity and diligence and conscientiously implemented the resolutions of, and exercised the power granted by the general meetings; and that the decisions and operations are in compliance with the laws and regulations and the Articles of Association. During the reporting period, the Supervisory Committee is not aware of any act committed by the Board and the management of the Company during their performance of duties which were in breach of laws, regulations and the Articles of Association or prejudicial to the interests of the Company.

III. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE FINANCIAL POSITION OF THE COMPANY

The Supervisory Committee is of the opinion that the financial statements of the Company give an objective, true and fair view of the financial position and the operating results of the Company in all material aspects and are true and reliable with its regulated financial audit and sound internal control system.

IV. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE MAJOR ACQUISITION AND DISPOSAL OF ASSETS OF THE COMPANY

During the reporting period, there were no major acquisition and disposal of assets of the Company.

V. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON CONNECTED TRANSACTIONS OF THE COMPANY

The Supervisory Committee is of the opinion that the connected transactions of the Company have been carried out in strict compliance with the principles of fairness, equality and openness under the statutory decision-making procedures, the connected transactions carried out are in accordance with the requirements of the listing rules, and the disclosure of information is standardized and transparent. The Supervisory Committee is not aware of any act prejudicial to the interest of the Company.

VI. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE SELF-ASSESSMENT REPORT ON INTERNAL CONTROL OF THE COMPANY

The self-assessment report on internal control of the Company has truthfully reflected the establishment and implementation of the internal control of the Company and its internal control system is sound and effective.

VII. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE ESTABLISHMENT AND IMPLEMENTATION OF THE MEASURES ON INSIDER MANAGEMENT

The insider management system of the Company is sound and comprehensive, effective in its implementation and able to keep all insider information confidential.

The Supervisory Committee of the Company will continue to perform its duties with due care to facilitate the standardized operation of the Company and to safeguard the lawful interests of the Company and its shareholders in strict compliance with the Company Law and the Articles of Association.

Section XI Investor Relations

2017 was a significant year for implementing the "Thirteenth Five-Year" Plan and a year for deepening the supply-side structural reform. The PRC economy maintained steady growth with increased internal impetus and witnessed a tight supply-demand balance in the coal market with the coal price fluctuating at a high level and the continuous deepening of the reform of state-owned enterprises. In the Report of the 19th Session of National Congress of the Communist Party of China, new requirements were put forward on the development of capital markets. As a listed company acting as the backbone of the capital markets, China Shenhua proactively optimized investor relations while strictly complying with laws and regulations to maintain a platform for smooth communication between the Company and the market.

I. COMPLIANCE WITH LAWS AND REGULATIONS TO SAFEGUARD THE LEGITIMATE RIGHTS AND INTERESTS OF INVESTORS

In 2017, the Company arranged a number of significant events. In March, the Board proposed to distribute special dividend; from June to August, the trading of A Shares of China Shenhua was suspended due to the planning of significant events; at the end of August, the Company published an announcement regarding the establishment of a joint venture company with Guodian Power. During the progress of the relevant significant events, the Company strictly complied with the Registration System of Persons with Access to Inside Information to prevent insider trading, which contributed to the stable performance of the share price without abnormal changes before the announcements of the relevant significant events. The Company strongly believed that information disclosure is the basic element for smooth communication with investors. While receiving on-site investigation and research, the Company also assigned designated person on duty round the clock to answer hotline enquiries from investors so as to prevent asymmetry of information disclosure and ensure fair treatment to all investors.

II. CATERING FOR INVESTORS' DEMANDS TO ENHANCE INVESTOR RELATIONS

In light of the greater need for communication of investors due to changes in industrial condition and significant events of the Company, the Company has proactively stepped up its efforts in enhancing investor relations works and has communicated with over 700 analysts and fund managers by maintaining honest and sufficient communication with investors and analysts in an on-going fashion through results announcement conferences, non-trading roadshows, online forums and other means. In particular: communications have been made with over 300 persons at conference roadshows, over 200 persons at investment forums and over 200 persons during company visits and by conference calls and the Company has held two online forums. The Company has been maintaining high frequency and wide range of communication with investors over the years, which has been highly recognized by the majority of investors.

III. RESPONDING TO MARKET ATTENTION BY PROVIDING VALID INFORMATION

Under the circumstances of stringent regulation on the domestic coal market, fluctuation in coal price at a high level and excess capacity elimination of coal-fired power, the Company has focused on the major concerns of the capital markets. Firstly, the Company has engaged in in-depth and honest communication with investors on shareholders' returns, capital use, project investment, etc.; secondly, the Company has strengthened the analysis on policies and industry trend to illustrate its understanding and judgment on the future coal and power industries to the capital markets; and thirdly, the Company has taken the initiative in disclosing significant events of the Company in a timely manner, and proactively guided investors' anticipation to the actual operation of the Company. By carrying out the above-mentioned works, investors have maintained their trusts in the Company, thereby boosting the confidence of capital markets to the future prospects of the Company and the industry.

The works carried out by the Company on investor relations was appreciated by the market. In the "2017 All Asia (excluding Japan) Management Team Ranking" hosted by the Institutional Investor magazine, China Shenhua ranked first in the list of "Best Investor Relations" in the basic raw material category.

Section XII Index to Information Disclosure

No.	Disclosure document for A Shares (published on the website of Shanghai Stock Exchange)	Date of publication
1	ANNOUNCEMENT OF CHINA SHENHUA ON PURCHASE OF PRINCIPAL-GUARANTEED ENTRUSTED WEALTH MANAGEMENT PRODUCTS	2017-1-4
2	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 22ND MEETING OF THE THIRD SESSION OF THE BOARD AND CHANGE IN PRESIDENT	2017-1-5
3	ANNOUNCEMENT OF CHINA SHENHUA ON 2016 UNAUDITED BALANCE SHEET AND PROFIT STATEMENTS OF SHENHUA FINANCE CO., LTD.	2017-1-14
4	ANNOUNCEMENT OF CHINA SHENHUA ON JOINT FOREIGN INVESTMENT AND CONNECTED TRANSACTIONS	2017-1-20
5	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF DECEMBER 2016	2017-1-23
6	ANNOUNCEMENT OF CHINA SHENHUA ON POSITIVE PROFIT ALERT FOR THE YEAR 2016	2017-1-26
7	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF JANUARY 2017	2017-2-15
8	H SHARES ANNOUNCEMENT OF CHINA SHENHUA	2017-3-7
9	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF FEBRUARY 2017	2017-3-17
10	ANNOUNCEMENT OF CHINA SHENHUA ON THE DISTRIBUTION PLAN OF SPECIAL DIVIDEND	2017-3-18
11	ANNOUNCEMENT OF CHINA SHENHUA ON PROVISION FOR IMPAIRMENT OF ASSETS	2017-3-18
12	SPECIAL STATEMENT AND INDEPENDENT OPINIONS OF INDEPENDENT NON-EXECUTIVE DIRECTORS OF CHINA SHENHUA ON EXTERNAL GUARANTEE OF THE COMPANY	2017-3-18
13	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 12TH MEETING OF THE THIRD SESSION OF THE SUPERVISORY COMMITTEE	2017-3-18
14	2016 PERFORMANCE REPORT OF THE AUDIT COMMITTEE OF THE THIRD SESSION OF THE BOARD OF CHINA SHENHUA	2017-3-18
15	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 24TH MEETING OF THE THIRD SESSION OF THE BOARD AND CHANGE IN SENIOR MANAGEMENT	2017-3-18
16	2016 AUDIT REPORT OF INTERNAL CONTROL OF CHINA SHENHUA	2017-3-18
17	CHINA SHENHUA: SPECIAL STATEMENT OF FUND UTILIZATION BY CONTROLLING SHAREHOLDERS AND OTHER RELATED PARITIES IN 2016	2017-3-18
18	CHINA SHENHUA: 2016 FINANCIAL STATEMENTS AND AUDIT REPORT	2017-3-18
19	2016 CSR REPORT OF CHINA SHENHUA	2017-3-18
20	CHINA SHENHUA: 2016 EVALUATION REPORT OF INTERNAL CONTROL	2017-3-18
21	2016 WORK REPORT OF INDEPENDENT DIRECTORS OF CHINA SHENHUA	2017-3-18
22	SUMMARY OF 2016 ANNUAL REPORT OF CHINA SHENHUA	2017-3-18
23	2016 ANNUAL REPORT OF CHINA SHENHUA	2017-3-18
24	ANNOUNCEMENT OF CHINA SHENHUA ON RESIGNATION OF THE CHAIRMAN AND PERFORMANCE OF DUTIES OF THE CHAIRMAN BY THE VICE CHAIRMAN	2017-3-28
25	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF MARCH 2017	2017-4-18
26	ANNOUNCEMENT OF CHINA SHENHUA REGARDING ONLINE DISCUSSION FORUM FOR INVESTORS	2017-4-29
27	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 25TH MEETING OF THE THIRD SESSION OF THE BOARD	2017-4-29
28	FIRST QUARTERLY REPORT OF CHINA SHENHUA FOR THE YEAR 2017	2017-4-29
29	STATEMENT OF NOMINEES FOR INDEPENDENT DIRECTORS OF CHINA SHENHUA	2017-5-6

No.	Disclosure document for A Shares (published on the website of Shanghai Stock Exchange)	Date of publication
30	STATEMENT OF CANDIDATES FOR INDEPENDENT DIRECTORS OF CHINA SHENHUA	2017-5-6
31	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 14TH MEETING OF THE THIRD SESSION OF THE SUPERVISORY COMMITTEE	2017-5-6
32	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 26TH MEETING OF THE THIRD SESSION OF THE BOARD	2017-5-6
33	NOTICE OF CHINA SHENHUA ON CONVENING OF 2016 ANNUAL GENERAL MEETING	2017-5-8
34	H SHARES CIRCULAR OF CHINA SHENHUA	2017-5-9
35	FURTHER ANNOUNCEMENT OF CHINA SHENHUA ON NOTICE OF 2016 ANNUAL GENERAL MEETING	2017-5-16
36	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF APRIL 2017	2017-5-16
37	INFORMATION ON 2016 ANNUAL GENERAL MEETING OF CHINA SHENHUA	2017-6-3
38	ANNOUNCEMENT OF CHINA SHENHUA ON SUSPENSION OF MAJOR ISSUES	2017-6-5
39	ANNOUNCEMENT OF CHINA SHENHUA ON CONTINUOUS SUSPENSION OF MAJOR ISSUES	2017-6-12
40	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF MAY 2017	2017-6-15
41	ANNOUNCEMENT OF CHINA SHENHUA ON CONTINUOUS SUSPENSION OF MAJOR ISSUES	2017-6-19
42	ANNOUNCEMENT OF CHINA SHENHUA REGARDING EMPLOYEE REPRESENTATIVE SUPERVISORS OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE	2017-6-24
43	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE FIRST MEETING OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE	2017-6-24
44	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE FIRST MEETING OF THE FOURTH SESSION OF THE BOARD	2017-6-24
45	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE SECOND MEETING OF THE FOURTH SESSION OF THE BOARD	2017-6-24
46	ANNOUNCEMENT OF CHINA SHENHUA ON RESOLUTIONS APPROVED AT THE 2016 ANNUAL GENERAL MEETING	2017-6-24
47	LEGAL OPINION OF CHINA SHENHUA ON THE 2016 ANNUAL GENERAL MEETING	2017-6-24
48	ANNOUNCEMENT OF CHINA SHENHUA ON THE PAYMENT OF 2016 FINAL DIVIDEND AND SPECIAL DIVIDEND OF THE COMPANY	2017-7-3
49	ANNOUNCEMENT OF CHINA SHENHUA OF PROGRESSIVE IN MATERIAL EVENTS AND CONTINUED SUSPENSION OF TRADING	2017-7-4
50	ANNOUNCEMENT OF CHINA SHENHUA ON PROGRESS OF THE WATERMARK PROJECT	2017-7-13
51	ANNOUNCEMENT OF CHINA SHENHUA ON THE UNAUDITED BALANCE SHEET AND PROFIT STATEMENT OF SHENHUA FINANCE CO., LTD. FOR THE FIRST HALF OF 2017	2017-7-14
52	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF JUNE 2017	2017-7-18
53	ANNOUNCEMENT OF CHINA SHENHUA ON POSITIVE PROFIT ALERT FOR THE FIRST HALF OF 2017	2017-7-29
54	ANNOUNCEMENT OF CHINA SHENHUA ON TEMPORARY SUSPENSION OR REDUCTION OF PRODUCTION AT HA'ERWUSU AND BAORIXILE OPEN-PIT MINES	2017-8-4
55	ANNOUNCEMENT OF CHINA SHENHUA OF PROGRESSIVE IN MATERIAL EVENTS AND CONTINUED SUSPENSION OF TRADING	2017-8-5
56	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE FOURTH MEETING OF THE FOURTH SESSION OF THE BOARD	2017-8-5
57	ANNOUNCEMENT OF CHINA SHENHUA REGARDING THE APPROVAL FOR SHENHUA BAOTOU COAL-TO-OLEFINS UPGRADING DEMONSTRATION PROJECT	2017-8-8

No.	Disclosure document for A Shares (published on the website of Shanghai Stock Exchange)	Date of publication
58	ANNOUNCEMENT OF CHINA SHENHUA REGARDING THE APPROVAL ON THE OVERALL PLAN FOR INNER MONGOLIA XINJIE TAIGEMIAO MINES	2017-8-12
59	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF JULY 2017	2017-8-16
60	ANNOUNCEMENT OF CHINA SHENHUA REGARDING ADJUSTMENTS TO GOVERNMENTAL FUNDS AND ELECTRICITY TARIFFS	2017-8-26
61	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE FIFTH MEETING OF THE FOURTH SESSION OF THE BOARD	2017-8-26
62	SUMMARY OF 2017 INTERIM REPORT OF CHINA SHENHUA	2017-8-26
63	2017 INTERIM REPORT OF CHINA SHENHUA	2017-8-26
64	ANNOUNCEMENT OF CHINA SHENHUA ON THE PROPOSED CHANGE OF COMPANY NAME OF THE CONTROLLING SHAREHOLDER AND PROPOSED IMPLEMENTATION OF JOINT RESTRUCTURING OF GROUP COMPANIES	2017-8-29
65	ANNOUNCEMENT OF CHINA SHENHUA ON FOREIGN INVESTMENT AND CONNECTED TRANSACTIONS	2017-8-29
66	INDEPENDENT OPINIONS OF INDEPENDENT NON-EXECUTIVE DIRECTORS OF CHINA SHENHUA ON RELEVANT RESOLUTIONS REGARDING THE SIXTH MEETING OF THE FOURTH SESSION OF THE BOARD	2017-8-29
67	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE THIRD MEETING OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE	2017-8-29
68	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE SIXTH MEETING OF THE FOURTH SESSION OF THE BOARD	2017-8-29
69	PROGRESSIVE ANNOUNCEMENT OF CHINA SHENHUA OF SUSPENSION OF TRADING OF A SHARES	2017-8-29
70	ANNOUNCEMENT OF CHINA SHENHUA OF RESUMPTION OF TRADING IN A SHARES	2017-9-1
71	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF AUGUST 2017	2017-9-15
72	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF SEPTEMBER 2017	2017-10-17
73	ANNOUNCEMENT OF CHINA SHENHUA REGARDING ONLINE DISCUSSION FORUM FOR INVESTORS	2017-10-28
74	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE SEVENTH MEETING OF THE FOURTH SESSION OF THE BOARD	2017-10-28
75	THIRD QUARTERLY REPORT OF CHINA SHENHUA FOR THE YEAR 2017	2017-10-28
76	ANNOUNCEMENT OF CHINA SHENHUA ON RESIGNATION OF VICE PRESIDENT	2017-11-7
77	H SHARES ANNOUNCEMENT OF CHINA SHENHUA	2017-11-16
78	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF OCTOBER 2017	2017-11-17
79	ANNOUNCEMENT OF CHINA SHENHUA ON COMPLETION OF INDUSTRIAL AND COMMERCIAL REGISTRATION OF CHANGES BY THE CONTROLLING SHAREHOLDER	2017-11-28
80	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF NOVEMBER 2017	2017-12-15

No.	Disclosure document for H Shares (published on the website of Hong Kong Stock Exchange)	Date of publication
1	PURCHASE OF PRINCIPAL-GUARANTEED ENTRUSTED WEALTH MANAGEMENT PRODUCTS	2017-01-03
2	OVERSEAS REGULATORY ANNOUNCEMENT	2017-01-03
3	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 31 DECEMBER 2016	2017-01-03
4	RESIGNATION OF PRESIDENT, APPOINTMENT OF NEW PRESIDENT AND CHANGE OF AUTHORIZED REPRESENTATIVE	2017-01-04
5	OVERSEAS REGULATORY ANNOUNCEMENT	2017-01-04
6	OVERSEAS REGULATORY ANNOUNCEMENT	2017-01-13
7	ESTABLISHMENT OF SHENHUA GUOHUA JIANGSU POWER SALES CO., LTD.	2017-01-19
8	OVERSEAS REGULATORY ANNOUNCEMENT	2017-01-19
9	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF DECEMBER 2016	2017-01-22
10	POSITIVE PROFIT ALERT FOR THE YEAR 2016	2017-01-25
11	OVERSEAS REGULATORY ANNOUNCEMENT	2017-01-25
12	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 31 JANUARY 2017	2017-02-03
13	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF JANUARY 2017	2017-02-14
14	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 28 FEBRUARY 2017	2017-02-28
15	NOTICE OF BOARD MEETING	2017-03-06
16	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF FEBRUARY 2017	2017-03-16
17	ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016	2017-03-17
18	PROPOSED DISTRIBUTION OF SPECIAL DIVIDEND	2017-03-17
19	CHANGE IN SENIOR MANAGEMENT	2017-03-17
20	PROVISION FOR IMPAIRMENT OF ASSETS	2017-03-17
21	2016 ANNUAL REPORT	2017-03-19
22	OVERSEAS REGULATORY ANNOUNCEMENT – ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 12TH MEETING OF THE THIRD SESSION OF THE SUPERVISORY COMMITTEE	2017-03-19
23	OVERSEAS REGULATORY ANNOUNCEMENT – ANNOUNCEMENT REGARDING RESOLUTIONS AT THE 24TH MEETING OF THE THIRD SESSION OF THE BOARD AND CHANGE IN SENIOR MANAGEMENT	2017-03-19
24	OVERSEAS REGULATORY ANNOUNCEMENT – 2016 CSR REPORT OF CHINA SHENHUA	2017-03-19
25	OVERSEAS REGULATORY ANNOUNCEMENT – 2016 ANNUAL REPORT OF CHINA SHENHUA	2017-03-19
26	2016 CSR REPORT	2017-03-20
27	RESIGNATION OF THE CHAIRMAN AND PERFORMANCE OF DUTIES OF THE CHAIRMAN BY THE VICE CHAIRMAN	2017-03-27
28	POSITIONS HELD BY CURRENT DIRECTORS AT THE BOARD AND THE BOARD COMMITTEES	2017-03-27
29	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 31 MARCH 2017	2017-03-31
30	NOTIFICATION LETTER AND REQUEST FORM TO REGISTERED SHAREHOLDER	2017-04-07

No.	Disclosure document for H Shares (published on the website of Hong Kong Stock Exchange)	Date of publication
31	NOTIFICATION LETTER AND REQUEST FORM TO NON-REGISTERED HOLDER	2017-04-07
32	NOTICE OF BOARD MEETING	2017-04-17
33	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF MARCH 2017	2017-04-17
34	OVERSEAS REGULATORY ANNOUNCEMENT	2017-04-28
35	OVERSEAS REGULATORY ANNOUNCEMENT	2017-04-28
36	FIRST QUARTERLY REPORT FOR THE YEAR 2017	2017-04-28
37	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 30 APRIL 2017	2017-05-02
38	OVERSEAS REGULATORY ANNOUNCEMENT	2017-05-05
39	PROPOSED APPOINTMENTS OF DIRECTORS AND SUPERVISORS	2017-05-07
40	NOTICE ON CONVENING OF 2016 ANNUAL GENERAL MEETING	2017-05-07
41	NOTIFICATION LETTER AND REQUEST FORM TO NON-REGISTERED HOLDER	2017-05-07
42	NOTIFICATION LETTER AND REQUEST FORM TO REGISTERED SHAREHOLDER	2017-05-07
43	REPLY SLIP – ANNUAL GENERAL MEETING	2017-05-07
44	FORM OF PROXY FOR ANNUAL GENERAL MEETING	2017-05-07
45	PROPOSED DISTRIBUTION OF SPECIAL DIVIDEND AND PROPOSED APPOINTMENTS OF DIRECTORS AND SUPERVISORS	2017-05-07
46	NOTICE OF ANNUAL GENERAL MEETING	2017-05-07
47	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF APRIL 2017	2017-05-15
48	OVERSEAS REGULATORY ANNOUNCEMENT	2017-05-15
49	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 31 MAY 2017	2017-06-01
50	OVERSEAS REGULATORY ANNOUNCEMENT	2017-06-02
51	OVERSEAS REGULATORY ANNOUNCEMENT	2017-06-04
52	INSIDE INFORMATION ANNOUNCEMENT	2017-06-04
53	OVERSEAS REGULATORY ANNOUNCEMENT	2017-06-11
54	INSIDE INFORMATION ANNOUNCEMENT	2017-06-11
55	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF MAY 2017	2017-06-14
56	OVERSEAS REGULATORY ANNOUNCEMENT	2017-06-18
57	INSIDE INFORMATION ANNOUNCEMENT	2017-06-18
58	OVERSEAS REGULATORY ANNOUNCEMENT	2017-06-23
59	APPOINTMENT OF BOARD COMMITTEE MEMBERS	2017-06-23
60	APPOINTMENT OF VICE CHAIRMAN OF THE BOARD OF DIRECTOR AND APPOINTMENT OF CHAIRMAN OF THE SUPERVISORY COMMITTEE	2017-06-23

No.	Disclosure document for H Shares (published on the website of Hong Kong Stock Exchange)	Date of publication
61	POSITIONS HELD BY CURRENT DIRECTORS AT THE BOARD AND THE BOARD COMMITTEES	2017-06-23
62	APPOINTMENT OF SUPERVISOR	2017-06-23
63	VOTING RESULTS OF 2016 ANNUAL GENERAL MEETING	2017-06-23
64	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 30 JUNE 2017	2017-06-30
65	OVERSEAS REGULATORY ANNOUNCEMENT	2017-07-02
66	INSIDE INFORMATION ANNOUNCEMENT	2017-07-03
67	OVERSEAS REGULATORY ANNOUNCEMENT	2017-07-03
68	OVERSEAS REGULATORY ANNOUNCEMENT	2017-07-12
69	ANNOUNCEMENT ON PROGRESS OF THE WATERMARK PROJECT	2017-07-12
70	OVERSEAS REGULATORY ANNOUNCEMENT	2017-07-13
71	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF JUNE 2017	2017-07-17
72	ANNOUNCEMENT ON POSITIVE PROFIT ALERT FOR THE FIRST HALF OF 2017	2017-07-28
73	OVERSEAS REGULATORY ANNOUNCEMENT	2017-07-28
74	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 31 JULY 2017	2017-08-01
75	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-03
76	TEMPORARY SUSPENSION OR REDUCTION OF PRODUCTION AT HA'ERWUSU AND BAORIXILE OPEN-PIT MINES	2017-08-03
77	INSIDE INFORMATION ANNOUNCEMENT	2017-08-04
78	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-04
79	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-07
80	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-11
81	NOTICE OF BOARD MEETING	2017-08-11
82	APPROVAL ON THE OVERALL PLAN FOR XINJIE TAIGEMIAO MINES	2017-08-11
83	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF JULY 2017	2017-08-15
84	ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017	2017-08-25
85	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-25
86	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-25
87	2017 INTERIM REPORT	2017-08-27
88	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-28
89	NOTIFIABLE TRANSACTION CONNECTED TRANSACTION ENTERING INTO JOINT VENTURE FRAMEWORK AGREEMENT	2017-08-29
90	INSIDE INFORMATION-PROPOSED CHANGE OF COMPANY NAME OF THE CONTROLLING SHAREHOLDER AND PROPOSED IMPLEMENTATION OF JOINT RESTRUCTURING OF GROUP COMPANIES	2017-08-29

No.	Disclosure document for H Shares (published on the website of Hong Kong Stock Exchange)	Date of publication
91	INSIDE INFORMATION-PROGRESSIVE ANNOUNCEMENT OF SUSPENSION OF TRADING OF A SHARES	2017-08-29
92	INSIDE INFORMATION – ANNOUNCEMENT OF RESUMPTION OF TRADING IN A SHARES	2017-08-31
93	OVERSEAS REGULATORY ANNOUNCEMENT	2017-08-31
94	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 31 AUGUST 2017	2017-08-31
95	NOTIFICATION LETTER AND REQUEST FORM TO NON-REGISTERED HOLDER	2017-09-08
96	NOTIFICATION LETTER AND REQUEST FORM TO REGISTERED SHAREHOLDER	2017-09-08
97	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF AUGUST 2017	2017-09-14
98	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 30 SEPTEMBER 2017	2017-10-03
99	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF SEPTEMBER 2017	2017-10-16
100	NOTICE OF BOARD MEETING	2017-10-16
101	OVERSEAS REGULATORY ANNOUNCEMENT	2017-10-27
102	THIRD QUARTERLY REPORT FOR THE YEAR 2017	2017-10-27
103	OVERSEAS REGULATORY ANNOUNCEMENT	2017-10-27
104	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 31 OCTOBER 2017	2017-11-03
105	RESIGNATION OF VICE PRESIDENT	2017-11-06
106	DELAY IN DISPATCH OF CIRCULAR	2017-11-15
107	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF OCTOBER 2017	2017-11-16
108	COMPLETION OF INDUSTRIAL AND COMMERCIAL REGISTRATION OF CHANGES BY THE CONTROLLING SHAREHOLDER	2017-11-27
109	MONTHLY RETURN OF EQUITY ISSUER ON MOVEMENTS IN SECURITIES FOR THE MONTH ENDED 30 NOVEMBER 2017	2017-12-01
110	ANNOUNCEMENT ON THE MAJOR OPERATIONAL DATA OF NOVEMBER 2017	2017-12-14

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 170 to 257, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on coal mines related non-current assets	
We identified non-current assets impairment assessment on coal mines related non-current assets as a key audit matter due to significant judgment made by management in determining the recoverable amounts of the corresponding cash-generating units. Owing to the unsatisfactory financial performance of certain Group's mines, the management identified certain non-current assets relating to coal mines having impairment indications. The impairment assessment involves management's judgment in certain areas including the discount rate and the underlying cash flows projection based on the future market supply and demand conditions. Any changes in management's judgement may result in significant financial impact to the Group. As set out in Note 15 to the consolidated financial statements, the management concluded that the recoverable amount of each separate cash-generating unit was higher than their carrying value and no impairment provision was required for the current year. The recoverable amounts of each cash-generating unit were determined by value in use method.	Our procedures in relation to impairment assessment on coal mines related non-current assets included: • testing the key controls related to the assessment on the carrying value of its non-current assets; • assessing the valuation methodology; • analysing and challenging the reasonableness of significant judgements and estimates built in the underlying cash flows used in management's impairment tests based on our knowledge of the business and industry; • analysing and reviewing the specific discount rates used by management in impairment tests; • evaluating the sensitivity analysis performed by management; • evaluating the historical accuracy of the forecasted future cash flows by comparing them to the actual results in the current year on a sampled basis and understanding the causes of any significant variances; and • reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wong Tin Chak, Samuel.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	Year ended 31 December 2017 RMB million	2016 RMB million
Revenue	5	**248,746**	183,127
Cost of sales	7	**(160,460)**	(124,843)
Gross profit		**88,286**	58,284
Selling expenses		**(612)**	(610)
General and administrative expenses		**(9,456)**	(8,423)
Other gains and losses	10	**(1,880)**	(3,078)
Other income		**894**	1,379
Other expenses		**(1,262)**	(1,511)
Interest income	8	**1,205**	723
Finance costs	8	**(4,416)**	(5,748)
Share of results of associates		**534**	237
Profit before income tax		**73,293**	41,253
Income tax expense	9	**(16,155)**	(9,283)
Profit for the year	10	**57,138**	31,970
Other comprehensive (expense) income for the year			
Item that will not be reclassified to profit or loss, net of income tax:			
Remeasurement of defined benefit obligations		**11**	21
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Exchange differences		**(210)**	311
Share of other comprehensive (expense) income of associates		**(3)**	60
Fair value gain on available-for-sale investment		**4**	–
		(209)	371
Other comprehensive (expense) income for the year, net of income tax		**(198)**	392
Total comprehensive income for the year		**56,940**	32,362

	NOTE	Year ended 31 December 2017 RMB million	2016 RMB million
Profit for the year attributable to:			
Equity holders of the Company		**47,795**	24,910
Non-controlling interests		**9,343**	7,060
		57,138	31,970
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**47,637**	25,272
Non-controlling interests		**9,303**	7,090
		56,940	32,362
Earnings per share *(RMB)*			
– Basic	14	**2.403**	1.252

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	**31 December 2017 RMB million**	31 December 2016 RMB million
Non-current assets			
Property, plant and equipment	15	**329,970**	337,785
Construction in progress	16	**39,054**	35,220
Exploration and evaluation assets	17	**998**	2,344
Intangible assets	18	**3,447**	3,018
Interests in associates	19	**9,513**	5,142
Available-for-sale investments	20	**854**	1,800
Other non-current assets	21	**33,466**	36,749
Lease prepayments	22	**17,858**	17,359
Deferred tax assets	28	**3,798**	3,849
Total non-current assets		**438,958**	443,266
Current assets			
Inventories	23	**11,647**	13,341
Accounts and bills receivables	24	**19,455**	20,573
Prepaid expenses and other current assets	25	**20,452**	48,792
Restricted bank deposits	26	**7,348**	6,141
Time deposits with original maturity over three months		**1,870**	3,428
Cash and cash equivalents	27	**71,872**	41,188
Total current assets		**132,644**	133,463
Current liabilities			
Borrowings	29	**15,785**	11,811
Accounts and bills payables	31	**33,914**	35,156
Accrued expenses and other payables	32	**51,995**	41,361
Current portion of medium-term notes	30	**4,995**	19,989
Current portion of bonds	30	**3,267**	–
Current portion of long-term liabilities	33	**345**	403
Income tax payable		**5,604**	3,465
Total current liabilities		**115,905**	112,185
Net current assets		**16,739**	21,278
Total assets less current liabilities		**455,697**	464,544

	NOTES	**31 December 2017 RMB million**	31 December 2016 RMB million
Non-current liabilities			
Borrowings	29	**64,321**	58,462
Medium-term notes	30	**–**	4,985
Bonds	30	**6,485**	10,331
Long-term liabilities	33	**2,292**	2,451
Accrued reclamation obligations	34	**2,745**	2,549
Deferred tax liabilities	28	**749**	797
Total non-current liabilities		**76,592**	79,575
Net assets		**379,105**	384,969
Equity			
Share capital	35	**19,890**	19,890
Reserves		**285,651**	297,085
Equity attributable to equity holders of the Company		**305,541**	316,975
Non-controlling interests		**73,564**	67,994
Total equity		**379,105**	384,969

The consolidated financial statements on pages 170 to 257 were approved and authorised for issue by the board of directors on 23 March 2018, and are signed on its behalf by:

Ling Wen
Chairman

Han Jianguo
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Equity attributable to equity holders of the Company									
	Share capital RMB million (Note 35)	Share premium RMB million (Note (i))	Capital reserve RMB million (Note (ii))	Exchange reserve RMB million	Statutory reserves RMB million (Note (iii))	Other reserves RMB million (Note (iv))	Retained earnings RMB million (Note (v))	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2017	19,890	85,001	3,612	105	20,827	(14,227)	201,767	316,975	67,994	384,969
Profit for the year	–	–	–	–	–	–	47,795	47,795	9,343	57,138
Other comprehensive (expense) income for the year	–	–	–	(170)	–	12	–	(158)	(40)	(198)
Total comprehensive (expense) income for the year	–	–	–	(170)	–	12	47,795	47,637	9,303	56,940
Dividend declared *(Note 13)*	–	–	–	–	–	–	(59,072)	(59,072)	–	(59,072)
Appropriation of maintenance and production funds *(Note (iii))*	–	–	–	–	5,316	–	(5,316)	–	–	–
Utilisation of maintenance and production funds *(Note (iii))*	–	–	–	–	(1,994)	–	1,994	–	–	–
Appropriation of general reserve *(Note (iii))*	–	–	–	–	344	–	(344)	–	–	–
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	2,000	2,000
Distributions to non-controlling shareholders	–	–	–	–	–	–	–	–	(5,733)	(5,733)
Others	–	–	–	–	–	1	–	1	–	1
At 31 December 2017	19,890	85,001	3,612	(65)	24,493	(14,214)	186,824	305,541	73,564	379,105

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2017

	Equity attributable to equity holders of the Company									
	Share capital *RMB million* *(Note 35)*	Share premium *RMB million* *(Note (i))*	Capital reserve *RMB million* *(Note (ii))*	Exchange reserve *RMB million*	Statutory reserves *RMB million* *(Note (iii))*	Other reserves *RMB million* *(Note (iv))*	Retained earnings *RMB million* *(Note (v))*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2016	19,890	85,001	3,612	(176)	18,003	(14,308)	186,046	298,068	65,853	363,921
Profit for the year	–	–	–	–	–	–	24,910	24,910	7,060	31,970
Other comprehensive income for the year	–	–	–	281	–	81	–	362	30	392
Total comprehensive income for the year	–	–	–	281	–	81	24,910	25,272	7,090	32,362
Dividend declared *(Note 13)*	–	–	–	–	–	–	(6,365)	(6,365)	–	(6,365)
Appropriation of maintenance and production funds *(Note (iii))*	–	–	–	–	3,747	–	(3,747)	–	–	–
Utilisation of maintenance and production funds *(Note (iii))*	–	–	–	–	(889)	–	889	–	–	–
Utilisation of general reserve *(Note (iii))*	–	–	–	–	(34)	–	34	–	–	–
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	1,111	1,111
Distributions to non-controlling shareholders	–	–	–	–	–	–	–	–	(6,060)	(6,060)
At 31 December 2016	19,890	85,001	3,612	105	20,827	(14,227)	201,767	316,975	67,994	384,969

Notes:

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

(ii) The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets, net of other reserves, transferred from Shenhua Group Corporation Limited ("Shenhua Group") in connection with the Restructuring (as defined in Note 1).

Notes: (Continued)

(iii) Statutory reserves

Statutory surplus reserve

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

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

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

Specific reserve for maintenance and production funds

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

General reserve

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

Discretionary surplus reserve

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

The directors of the Company (the "Directors") have not proposed any appropriation to the discretionary surplus reserve in 2017 and 2016.

(iv) Other reserves

Other reserves mainly represents the consideration paid for acquisition of subsidiaries under common control, and share of other comprehensive income (expense) of associates.

(v) Retained earnings

Included in the retained earnings of the Group were its share of the surplus reserve of its domestic subsidiaries amounted to RMB22,573 million (31 December 2016: RMB18,065 million) as at 31 December 2017.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
OPERATING ACTIVITIES		
Profit before income tax	**73,293**	41,253
Adjustments for:		
Depreciation and amortisation *(Note 10)*	**25,340**	24,721
Other gains and losses *(Note 10)*	**1,880**	3,078
Interest income *(Note 8)*	**(1,205)**	(723)
Share of results of associates	**(534)**	(237)
Interest expenses	**4,910**	5,062
Fair value changes on financial instruments *(Note 8)*	**–**	(2)
Exchange (gain) loss, net *(Note 8)*	**(494)**	688
Operating cash flows before movements in working capital	**103,190**	73,840
Decrease (increase) in inventories	**1,588**	(1,076)
Decrease in accounts and bills receivables	**361**	20,084
(Increase) decrease in prepaid expenses and other receivables	**(89)**	1,146
(Decrease) increase in accounts and bills payables	**(1,802)**	2,925
Increase (decrease) in accrued expenses and other payables	**5,912**	(6,267)
Cash generated from operations	**109,160**	90,652
Income tax paid	**(14,008)**	(8,769)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**95,152**	81,883
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	**(19,602)**	(28,264)
Increase in lease prepayments	**(666)**	(794)
Proceeds on disposal of property, plant and equipment, intangible assets, lease prepayments and other non-current assets	**1,342**	649
Proceeds on disposal of associates	**–**	35
Proceeds on disposal of wealth management products	**57,885**	160
Proceeds on disposal of derivative financial instruments	**59**	23
Proceeds on entrusted loans	**2,627**	–
Investments in associates	**(3,431)**	(104)
Purchase of derivative financial instruments	**(111)**	(2)
Purchase of tradable wealth management products	**–**	(50)
Investments in bonds	**(100)**	–
Dividend received from associates	**232**	375
Interest received	**1,097**	710
Purchase of wealth management products	**(24,100)**	(33,350)
Offering entrusted loans	**(2,220)**	–
Increase in restricted bank deposits	**(1,207)**	(1,530)
Increase in time deposits with original maturity over three months	**(1,827)**	(5,026)
Maturity of time deposits with original maturity over three months	**3,385**	2,514
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES	**13,363**	(64,654)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
FINANCING ACTIVITIES *(Note 38)*		
Interest paid	**(5,762)**	(5,600)
Proceeds on borrowings	**24,651**	28,037
Repayments of borrowings	**(14,490)**	(24,927)
Repayments of short-term debentures and medium-term notes	**(20,000)**	(5,000)
Proceeds on bills discounted	**137**	435
Contributions from non-controlling shareholders	**1,164**	1,111
Distributions to non-controlling shareholders	**(4,249)**	(6,181)
Dividend paid to equity holders of the Company	**(59,072)**	(6,365)
NET CASH USED IN FINANCING ACTIVITIES	**(77,621)**	(18,490)
Net increase (decrease) in cash and cash equivalents	**30,894**	(1,261)
Cash and cash equivalents, at the beginning of the year	**41,188**	42,323
Effect of foreign exchange rate changes	**(210)**	126
Cash and cash equivalents, at the end of the year	**71,872**	41,188

1. PRINCIPAL ACTIVITIES AND ORGANISATION

Principal activities

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

Organisation

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

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

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

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

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

Immediate parent and ultimate controlling party

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

On 27 November 2017, Shenhua Group has completed the industrial and commercial registration of changes in the business license. At 31 December 2017, the Directors consider the immediate parent and ultimate holding company of the Group to be China Energy Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied, for the first time, the following amendments to IFRSs that are mandatorily effective for the current year.

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12	*As part of the Annual Improvements to IFRSs 2014-2016 Cycle*

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements, except for the application of Amendments to IAS 7.

The Group has applied the amendments to IAS 7 *Disclosure Initiative* for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not effective:

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[4]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[2]
Amendments to IAS 28	*Long-term interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle*[1]
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015–2017 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs in issue but not yet effective (Continued)

Other than as further explained below, the Directors do not anticipate that the application of the new and revised IFRSs above will have a material impact on the Group's consolidated financial statements and the disclosure.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss;

- 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 and 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. Under IAS 39, the effective interest rates for non-substantial modification of financial liabilities are revised with no gain/loss being recognised in profit or loss at the date of modification;

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs in issue but not yet effective (Continued)

IFRS 9 Financial Instruments (Continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement:

- Debt instruments classified as held-to-maturity investments and loan receivables carried at amortised cost as disclosed in Note 21, 24, 25, 26 and 27 respectively: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9;

- Equity securities classified as available-for-sale ("AFS") investments carried at cost less impairment as disclosed in Note 20: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of IFRS 9, AFS equity securities of the Group with a carrying amount of RMB749 million as at 31 December 2017 will be designated as financial assets measured at FVTOCI. Other AFS investments will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss;

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment:

In general, the Directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on accounts receivables, other receivables, loans and advances to China Energy Group and fellow subsidiaries and entrusted loans. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at 1 January 2018.

Other than above, the Directors do not expect IFRS 9 will have a material impact on the results and financial position of the Group.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs in issue but not yet effective (Continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- 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 entity satisfies a performance obligation

Under IFRS 15, an entity 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. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Directors anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the Directors do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability. For the classification of cash flows, cash repayments of the lease liability are classified into a principal portion and an interest portion and presented as financing in the statement of cash flows. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

New and revised IFRSs in issue but not yet effective (Continued)

IFRS 16 Leases (Continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As disclosed in Note 39.2, total operating lease commitments for the Group as at 31 December 2017 amounted to RMB2,123 million, the Directors do not expect the application of IFRS 16 would result in significant impact on the Group's results but it is expected that these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board. They are presented in Renminbi ("RMB") and all values are rounded to the nearest million (RMB' million) except when otherwise indicated. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments as disclosed in Note 37.3, which have been measured at fair value at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Group's consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (Continued)

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to equity holders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Except for business combination involving entities under common control, acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee benefits* respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

On acquisition of the investment in an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether there are any indicators that the Group's investment in an associate may be impaired. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss is recognised when the recoverable amount is less the carrying value of the investment in associates. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs can be measured reliably, revenue is recognised in profit or loss as follows:

- Revenue associated with the sale of coal is recognised when the risks and rewards to the ownership of the goods have been passed to the customer.

- Revenue from sale of power is recognised upon the transmission of electric power to the power grid companies, as determined based on the volume of electric power transmitted and the applicable fixed tariff rates agreed with the respective electric power grid companies annually.

- Revenue from the rendering of railway, port, shipping and other services is recognised upon the delivery or performance of the services.

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Interest income is recognised as it accrues using the effective interest method.

Leasing

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Land using rights under operating leases are presented as lease prepayments in the consolidated statement of financial position and are initially stated at cost and subsequently charged to the profit or loss on the straight-line basis over the lease terms.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than entity's functional currencies (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve, attributed to non-controlling interests as appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and a supplemental defined contribution pension plan approved by the government are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before income tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are reassessed at the end of each reporting year and are recognised to the extent that it has become probable that future taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment, which consists of freehold land and buildings, mining structures and mining rights, mining related machinery and equipment, and others, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than freehold land and construction in progress, which are subject to impairment assessment) less their residual values over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment, except for freehold land, and mining structures and mining rights, are depreciated on a straight-line basis at the following rates per annum:

Category	**Term for depreciation (year)**
Buildings	10-50 years
Mining related machinery and equipment	5-20 years
Generators related machinery and equipment	20 years
Railway and port	30-45 years
Vessel	10-25 years
Coal chemical related machinery and equipment	10-20 years
Furniture, fixtures, motor vehicles and other equipment	5-20 years

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

The Directors reviewed the estimated useful lives of the assets annually based on the Group's historical experience with similar assets and taking into account anticipated technological changes.

Construction in progress intended to be used for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining structures and mining rights

The costs of mining structures and mining rights, which include the costs of acquiring and developing mining structures and mining rights, are firstly capitalised as "construction in progress" in the year in which they are incurred and then reclassified to "Mining structures and mining rights" under property, plant and equipment when they are ready for commercial production.

Mining structures and mining rights are depreciated on a units-of-production basis utilising only proved and probable coal reserves in the depletion base.

The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

Stripping costs incurred to develop a mine (or pit) before the production commences or to improve access to the component of the ore body during the production stage are capitalised as part of the cost of constructing the mine (or pit) and subsequently amortised over the life of the mine (or pit) on a units-of-production basis. Stripping costs and secondary development expenditure, mainly comprising costs on blasting, haulage, excavation, etc. incurred during the production stage of the ore body are charged to profit or loss as incurred.

Commercial reserves are proved and probable reserves. Changes in the commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Exploration and evaluation assets

Exploration and evaluation assets comprise costs which are directly attributable to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation assets (Continued)

- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Expenditure during the initial exploration preparation stage of a project is charged to profit or loss as incurred. Exploration and evaluation costs, including the costs of acquiring licenses, are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project.

Once the final feasibility study has been completed and a development decision has been taken, accumulated capitalised exploration and evaluation expenditures in respect of an area of interest are transferred to property, plant and equipment. In circumstances when an area of interest is abandoned or management decides it is not commercially viable, any accumulated costs in respect of that area are written off in the period the decision is made.

Obligations for land reclamation

The Group's obligations for land reclamation consist of spending estimates at both surface and underground mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for land reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash flows for the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

Costs for restoration of subsequent site damage which is caused on an ongoing basis during production are provided for at their net present values and charged to profit or loss as extraction progresses. Where the costs of site restoration are not anticipated to be significant, they are expensed as incurred.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination not under common control

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets other than goodwill

Where an indication of impairment exists, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is charged to the profit or loss as other gains and losses.

An assessment is made at the end of each reporting year as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the year in which it arises.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets

Financial assets within the scope of IAS 39 are classified into the following specific categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables and AFS financial assets. The Group determines the classification of its financial assets at initial recognition based on their nature and purpose. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Group's financial assets include financial assets at FVTPL, held-to-maturity investments, loans and receivables and AFS financial assets. The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. They are stated at fair values, with any gains or losses arising on remeasurement, net of interest earned, recognised in profit or loss and are included in other gains and losses line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that are quoted in an active market and that the Group has the positive intention and ability to hold to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts and bills receivables, other receivables, loans and advances to China Energy Group and fellow subsidiaries, entrusted loans, restricted bank deposits, time deposits with original maturity over three months and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as other categories of financial assets. AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of fair value changes on AFS investment. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value changes on AFS investment is reclassified to profit or loss.

As the unlisted equity investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at end of each reporting period. Dividends on the unlisted equity investment are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with the policies set out for "Revenue recognition".

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables, other receivables, loans and advances to China Energy Group and fellow subsidiaries and entrusted loans, where the carrying amount is reduced through the use of an allowance account. When accounts receivables, other receivables, loans and advances to China Energy Group and fellow subsidiaries and entrusted loans are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of fair value changes on AFS investment. In respect of debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity instruments

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL and financial liabilities at amortised cost.

After initial recognition, the Group's financial liabilities including borrowings, accounts and bills payables, other payables, long-term liabilities, medium-term notes and bonds, are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The Group's derivative financial instruments represent cross-currency exchange rate swaps, and are initially recognised at fair value at the date when the derivative contracts are entered into, and remeasured at fair value at the end of the reporting period, with any gains or losses recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Critical judgements in applying accounting policies

The following are critical judgements, apart from those involving estimation (see Note 4.2 below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over Hebei Guohua Dingzhou Power Co., Ltd. ("Dingzhou Power")

Note 43 describes that Dingzhou Power is a subsidiary of the Company although the Company has only 41% ownership interest and voting rights in Dingzhou Power. The remaining 59% of ownership interest and voting rights are owned by two shareholders that are unrelated to the Group as to 19% and 40%, respectively. Details of Dingzhou Power are set out in Note 43.

In making their judgement, the Directors considered that the other shareholders of Dingzhou Power offered the Company, for the right on appointment of the majority members of the board of directors which is the governing body of most of the relevant activities of Dingzhou Power. The Directors consider that the Company has the practical ability to direct the relevant activities that most significantly affect Dingzhou Power's returns unilaterally. After assessment, the Directors concluded that the Company has sufficiently dominant power over the board of directors of Dingzhou Power and therefore the Company has control over Dingzhou Power.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated at regular basis and have taken into account recent production and technical information of each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable coal reserves also changes. This change is considered as a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment loss. Depreciation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are amortised based on the units of coal produced.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (Continued)

Impairment losses

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress and interest in associates, the recoverable amount of the asset needs to be determined. The recoverable amount is the higher of its fair value less costs of disposal and value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets may not be readily available. In determining the value in use, the Group uses all readily available information in determining expected cash flows generated by the cash-generating unit to which the asset belongs and they are discounted to their present value, which requires significant judgement relating to cash flow items such as level of sale volume, selling price, amount of operating costs and future returns.

In considering the impairment losses that may be required for current receivables and other financial assets, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables.

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher or lower than the amount estimated. The carrying amounts of the property, plant and equipment, construction in progress and interests in associates are disclosed in Note 15, 16 and 19, respectively.

Depreciation

Other than the freehold land and mining structures and mining rights, property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives and residual value of the assets regularly based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. The carrying amounts of the property, plant and equipment is disclosed in Note 15.

Deferred tax assets

As at 31 December 2017, deferred tax assets of RMB3,798 million (2016: RMB3,849 million) have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB7,268 million (2016: RMB6,869 million) and deductible temporary differences of RMB6,555 million (2016: RMB5,804 million) due to the unpredictability of future profit streams. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further provision of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal or further provision takes place.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (Continued)

Obligations for land reclamation

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including development plan of the mines, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate. The carrying amounts of the obligations are disclosed in Note 34.

5. REVENUE

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Coal revenue	**150,740**	98,126
Power revenue	**78,246**	68,935
Transportation revenue	**6,076**	4,610
Coal chemical revenue	**5,085**	4,293
	240,147	175,964
Other revenue	**8,599**	7,163
	248,746	183,127

6. SEGMENT AND OTHER INFORMATION

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM"), including president, senior vice president and chief financial officer, for the purposes of resource allocation and performance assessment, the Group has presented the following six (2016: six) reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

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

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

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

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

6. SEGMENT AND OTHER INFORMATION (CONTINUED)

6.1 Segment results

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

Information regarding the Group's reportable segments as provided to the Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below：

	Coal		Power		Railway		Port		Shipping		Coal chemical		Segment total	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Revenue from external customers	**155,370**	102,283	**79,246**	69,613	**5,615**	4,174	**788**	575	**698**	380	**5,681**	4,831	**247,398**	181,856
Inter-segment revenue	**40,548**	29,074	**265**	237	**31,971**	29,356	**4,929**	4,465	**2,549**	1,732	**–**	–	**80,262**	64,864
Reportable segment revenue	**195,918**	131,357	**79,511**	69,850	**37,586**	33,530	**5,717**	5,040	**3,247**	2,112	**5,681**	4,831	**327,660**	246,720
Reportable segment profit	**46,062**	16,084	**5,585**	10,001	**16,480**	13,283	**2,580**	2,049	**620**	192	**481**	5	**71,808**	41,614
Including:														
Interest expenses	**1,452**	1,517	**2,284**	1,882	**1,028**	1,189	**397**	433	**59**	86	**120**	197	**5,340**	5,304
Depreciation and amortisation	**7,703**	7,936	**10,059**	9,550	**4,858**	4,635	**1,266**	1,037	**293**	292	**913**	938	**25,092**	24,388
Share of results of associates	**266**	50	**213**	153	**–**	–	**17**	8	**–**	–	**–**	–	**496**	211
Impairment loss	**1,540**	823	**1,141**	1,855	**27**	2	**9**	–	**–**	31	**24**	60	**2,741**	2,771

6.2 Reconciliations of reportable segment revenue, segment profit and other items of profit or loss for the years ended 31 December 2017 and 2016 are set out below:

	Reportable segment amounts		Unallocated head office and corporate items		Elimination of inter-segment amounts		Consolidated	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Revenue	**327,660**	246,720	**2,388**	2,237	**(81,302)**	(65,830)	**248,746**	183,127
Profit before income tax	**71,808**	41,614	**1,463**	154	**22**	(515)	**73,293**	41,253
Interest expenses	**5,340**	5,304	**1,660**	1,920	**(2,090)**	(2,162)	**4,910**	5,062
Depreciation and amortisation	**25,092**	24,388	**248**	333	**–**	–	**25,340**	24,721
Share of results of associates	**496**	211	**38**	26	**–**	–	**534**	237
Impairment loss	**2,741**	2,771	**(22)**	44	**–**	(8)	**2,719**	2,807

6. SEGMENT AND OTHER INFORMATION (CONTINUED)

6.3 Geographical information

The following table sets out information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, construction in progress, exploration and evaluation assets, intangible assets, interests in associates, other non-current assets and lease prepayments ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, construction in progress and lease prepayments, and the location of operations, in the case of exploration and evaluation assets, intangible assets, other non-current assets and interests in associates.

	Revenue from external customers		**Specified non-current assets**	
	Year ended 31 December 2017	Year ended 31 December 2016	**31 December 2017**	31 December 2016
	RMB million	*RMB million*	***RMB million***	*RMB million*
Domestic markets	**245,230**	179,859	**406,565**	412,502
Overseas markets	**3,516**	3,268	**17,204**	9,113
	248,746	183,127	**423,769**	421,615

6.4 Major customers

Revenue from any individual customer of the Group does not exceed 10% of the Group's revenue. Certain of the Group's customers are entities, which controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities") and collectively considered as the Group's major customer. Revenue from major customer of the Group's coal and power segments amounted to RMB174,515 million (2016: RMB137,294 million).

6. SEGMENT AND OTHER INFORMATION (CONTINUED)

6.5 Other information

Certain other information of the Group's segments for the years ended 31 December 2017 and 2016 is set out below:

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	2017 RMB million	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*	**2017 RMB million**	2016 *RMB million*
Coal purchased	**49,950**	26,286	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**49,950**	26,286
Cost of coal production	**40,305**	36,584	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(7,352)**	(7,664)	**32,953**	28,920
Cost of coal transportation	**49,726**	42,221	**–**	–	**15,153**	14,708	**2,565**	2,271	**1,130**	948	**–**	–	**–**	–	**(39,449)**	(44,060)	**29,125**	16,088
Power cost	**–**	–	**67,756**	53,456	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(32,245)**	(12,352)	**35,511**	41,104
Cost of coal chemical production	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**4,376**	3,797	**–**	–	**(1,344)**	(401)	**3,032**	3,396
Others	**3,480**	4,313	**632**	483	**3,479**	2,642	**315**	252	**1,342**	759	**592**	533	**49**	67	**–**	–	**9,889**	9,049
Total cost of sales	**143,461**	109,404	**68,388**	53,939	**18,632**	17,350	**2,880**	2,523	**2,472**	1,707	**4,968**	4,330	**49**	67	**(80,390)**	(64,477)	**160,460**	124,843
Profit from operations *(Note (i))*	**46,051**	17,017	**7,399**	11,689	**17,675**	15,000	**2,529**	2,302	**661**	266	**560**	254	**1,536**	1,261	**(912)**	(1,345)	**75,499**	46,444
Additions to non-current assets *(Note (ii))*	**4,566**	5,835	**15,226**	17,829	**5,384**	3,819	**722**	1,746	**8**	7	**106**	95	**188**	47	**–**	–	**26,200**	29,378
Total assets *(Note (iii))*	**225,672**	198,140	**215,910**	207,879	**129,829**	125,152	**24,211**	22,489	**7,865**	8,038	**10,982**	11,621	**381,056**	377,853	**(423,923)**	(374,443)	**571,602**	576,729
Total liabilities *(Note (iii))*	**(114,713)**	(116,711)	**(152,157)**	(134,519)	**(65,772)**	(65,396)	**(10,607)**	(10,135)	**(1,527)**	(2,063)	**(3,619)**	(4,686)	**(169,782)**	(137,179)	**325,680**	278,929	**(192,497)**	(191,760)

Notes:

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

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

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

7. COST OF SALES

	Year ended 31 December	
	2017 RMB million	2016 *RMB million*
Coal purchased	**49,950**	26,286
Materials, fuel and power	**19,523**	16,405
Personnel expenses	**13,842**	12,661
Depreciation and amortisation	**21,576**	21,744
Repairs and maintenance	**9,938**	9,509
Transportation charges	**14,326**	10,172
Taxes and surcharges	**9,640**	6,922
Other operating costs	**21,665**	21,144
	160,460	124,843

8. INTEREST INCOME/FINANCE COSTS

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Interest income from:		
– bank deposits	**959**	691
– other loans and receivables	**246**	32
Total interest income	**1,205**	723
Interest on:		
– borrowings	**4,264**	3,896
– short-term debentures	**–**	18
– medium-term notes	**954**	1,289
– bonds	**311**	329
Total finance costs on financial liabilities not at FVTPL	**5,529**	5,532
Less: amount capitalised	**799**	643
	4,730	4,889
Unwinding of discount	**180**	173
Exchange (gain) loss, net	**(494)**	688
Fair value changes on financial instruments	**–**	(2)
Total finance costs	**4,416**	5,748
Net finance costs	**3,211**	5,025

Borrowing costs capitalised during the year arose on the general borrowing pools and were calculated by applying a capitalisation rate from 2.48% to 4.81% (2016: from 2.48% to 4.63%) per annum to expenditure on qualifying assets.

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Current tax, mainly the PRC enterprise income tax ("EIT")	**14,172**	10,378
Under provision in respect of prior years	**1,981**	161
Deferred tax	**2**	(1,256)
	16,155	9,283

The tax charge for the year can be reconciled to the profit before income tax per consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Profit before income tax	**73,293**	41,253
Tax at the PRC income tax rate of 25% (2016: 25%)	**18,323**	10,313
Tax effects of:		
– different tax rates of branches and subsidiaries	**(4,802)**	(2,209)
– non-deductible expenses	**572**	636
– income not taxable	**(175)**	(65)
– share of results of associates	**(128)**	(59)
– utilisation of tax losses and deductible temporary difference previously not recognised	**(518)**	(190)
– tax losses and deductible temporary difference not recognised	**905**	704
– additional tax in respect of prior years	**1,981**	161
– others	**(3)**	(8)
Income tax expense	**16,155**	9,283

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 the PRC group entities is 25% (2016: 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.

9. INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2017	2016
	%	%
Australia	**30.0**	30.0
Indonesia	**25.0**	25.0
Russia	**20.0**	20.0
Hong Kong	**16.5**	16.5

During the year ended 31 December 2017 and 2016, there was no significant assessable profit and provision for income tax for the overseas subsidiaries.

10. PROFIT FOR THE YEAR

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

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Personnel expenses, including	**25,693**	20,844
– contributions to defined contribution plans of RMB2,886 million (2016: RMB2,728 million)		
Depreciation of property, plant and equipment	**23,521**	22,813
Amortisation of intangible assets, included in cost of sales	**449**	414
Amortisation of lease prepayments, included in cost of sales	**498**	429
Amortisation of other non-current assets	**872**	1,065
Depreciation and amortisation	**25,340**	24,721
Other gains and losses, represent		
– (gains) losses on disposal of property, plant and equipment, exploration and evaluation assets, intangible assets and non-current assets	**(317)**	304
– gains on disposal of associates	**–**	(17)
– losses (gains) on disposal of subsidiaries	**1**	(5)
– gains on disposal of available-for-sale investments	**(535)**	–
– gains on disposal of derivative financial instruments	**(7)**	(11)
– losses on changes in fair value of derivative financial instruments	**19**	–
– impairment of an available-for-sale investment	**65**	–
– impairment of interest in an associate	**1**	1
– impairment in respect of property, plant and equipment	**1,511**	1,725
– impairment in respect of construction in progress	**175**	22
– impairment in respect of lease prepayments	**22**	–
– (reversal) impairment of loans receivable	**(8)**	22
– allowance for doubtful debts	**847**	388
– write down of inventories	**106**	551
– impairment in respect of goodwill	**–**	98
	1,880	3,078
Carrying amount of inventories sold	**116,464**	86,149
Operating lease in respect of properties and equipments	**345**	301
Auditors' remuneration		
– audit service	**30**	32

11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Year ended 31 December 2017				
	Fees *RMB million*	Basic salaries, housing and other allowance and benefits in kind *RMB million*	Discretionary bonuses *RMB million*	Retirement scheme contributions *RMB million*	Total *RMB million*
Chief executive					
Zhang Yuzhuo *(Note (i) and Note (iii))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Executive directors					
Ling Wen *(Note (i))*	–	–	–	–	–
Han Jianguo *(Note (i))*	–	–	–	–	–
Li Dong *(Note (i))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Non-executive directors					
Chen Hongsheng *(Note (i) and Note(iii))*	–	–	–	–	–
Zhao Jibin *(Note (i))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Independent non-executive directors					
Fan Hsulaitai *(Note (iii))*	**0.26**	–	–	–	**0.26**
Gong Huazhang *(Note (iii))*	**0.26**	–	–	–	**0.26**
Guo Peizhang *(Note (iii))*	**0.26**	–	–	–	**0.26**
Tam Wai Chu *(Note (ii))*	**0.19**	–	–	–	**0.19**
Jiang Bo *(Note (ii))*	**0.19**	–	–	–	**0.19**
Zhong Yingjie *(Note (ii))*	**0.19**	–	–	–	**0.19**
Sub-total	**1.35**	–	–	–	**1.35**
Supervisors					
Zhai Richeng	–	**0.46**	**0.40**	**0.08**	**0.94**
Zhou Dayu	–	**0.48**	**0.38**	**0.08**	**0.94**
Shen Lin	–	**0.48**	**0.37**	**0.08**	**0.93**
Sub-total	–	**1.42**	**1.15**	**0.24**	**2.81**
Total					**4.16**

11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	Year ended 31 December 2016				
	Fees *RMB million*	Basic salaries, housing and other allowance and benefits in kind *RMB million*	Discretionary bonuses *RMB million*	Retirement scheme contributions *RMB million*	Total *RMB million*
Chief executive					
Zhang Yuzhuo *(Note (i) and Note (iii))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Executive directors					
Ling Wen *(Note (i))*	–	–	–	–	–
Han Jianguo *(Note (i))*	–	–	–	–	–
Li Dong *(Note (i))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Non-executive directors					
Chen Hongsheng *(Note (i) and Note (iii))*	–	–	–	–	–
Zhao Jibin *(Note (i))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Independent non-executive directors					
Fan Hsulaitai *(Note (iii))*	0.45	–	–	–	0.45
Gong Huazhang *(Note (iii))*	0.45	–	–	–	0.45
Guo Peizhang *(Note (iii))*	0.45	–	–	–	0.45
Sub-total	1.35	–	–	–	1.35
Supervisors					
Zhai Richeng	–	0.45	0.40	0.08	0.93
Zhou Dayu	–	0.25	0.15	0.04	0.44
Shen Lin	–	0.46	0.38	0.08	0.92
Tang Ning *(Note (iv))*	–	–	0.05	–	0.05
Sub-total	–	1.16	0.98	0.20	2.34
Total					3.69

11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

Discretionary bonuses were determined by the remuneration committee in accordance with the relevant human resources policies.

Notes:

(i) The emoluments of these directors were borne by China Energy Group during the years ended 31 December 2017 and 2016.

(ii) Ms. Tam Wai Chu was appointed as independent non-executive director on 23 June 2017.

Ms. Jiang Bo was appointed as independent non-executive director on 23 June 2017.

Ms. Zhong Yingjie was appointed as independent non-executive director on 23 June 2017.

(iii) Mr. Zhang Yuzhuo resigned as chief executive on 27 March 2017.

Mr. Chen Hongsheng resigned as non-executive director on 23 June 2017.

Ms. Fan Hsulaitai resigned as independent non-executive director on 23 June 2017.

Mr. Gong Huazhang resigned as independent non-executive director on 23 June 2017.

Mr. Guo Peizhang resigned as independent non-executive director on 23 June 2017.

(iv) Mr. Tang Ning resigned as supervisor on 17 June 2016. He retired in the year ended 31 December 2015 and no more emolument achieved after his retirement. The discretionary bonuses he got during the year ended 31 December 2016 is for his prior years' performance.

Except for those emoluments of directors or supervisors whose emoluments were borne by China Energy Group, the executive directors' and supervisors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments within the Group, Nil (2016: nil) was director of the Company. The emoluments of the five (2016: five) individuals were as follows:

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Basic salaries, housing and other allowances and benefits in kind	**2.31**	2.23
Discretionary bonuses	**2.12**	2.13
Retirement scheme contributions	**0.41**	0.40
	4.84	4.76

Their emoluments were within the following band:

	Year ended 31 December	
	2017	2016
HKD1,000,001 to HKD1,500,000	**5**	5

13. DIVIDENDS

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Dividend approved and paid during the year:		
2016 final – RMB0.46 (2016: 2015 final of RMB0.32) per ordinary share	**9,149**	6,365
2016 special – RMB2.51 per ordinary share	**49,923**	–
	59,072	6,365

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2017 of RMB0.91 (in respect of the year ended 31 December 2016: final dividend RMB0.46, special dividend RMB2.51) per ordinary share has been proposed by the Directors and is subject to approval by the shareholders in the following general meeting.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company of RMB47,795 million (2016: RMB24,910 million) and the number of shares in issue during the year of 19,890 million shares (2016: 19,890 million shares).

No diluted earnings per share for both 2017 and 2016 were presented as there were no potential ordinary shares in existence during both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mining structures and mining rights	Mining related machinery and equipment	Generators, related machinery and equipment	Railway and port	Vessels	Coal chemical related machinery and equipment	Furniture, fixtures, motor vehicles and other equipment	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
COST									
At 1 January 2016	76,977	30,876	66,040	167,802	121,234	6,853	13,120	17,716	500,618
Exchange adjustment	114	8	–	103	–	–	–	–	225
Additions	28	2,609	689	153	685	–	8	16	4,188
Transferred from construction in progress	5,232	246	1,045	10,403	2,476	27	134	67	19,630
Disposals or write-off	(242)	(115)	(756)	(1,275)	(946)	–	(44)	(34)	(3,412)
Transferred to construction in progress, for overall technical enhancement	–	–	–	–	(152)	–	–	–	(152)
At 31 December 2016	82,109	33,624	67,018	177,186	123,297	6,880	13,218	17,765	521,097
Additions	210	1,173	157	436	2,450	11	4	13	4,454
Transferred from construction in progress	4,195	268	1,256	5,972	2,063	6	15	44	13,819
Adjustment	(326)	1,245	(590)	(343)	42	–	(58)	2	(28)
Disposals or write-off	(237)	(70)	(1,496)	(3,377)	(502)	–	(2)	(4)	(5,688)
Exchange adjustment	(7)	–	–	(31)	–	–	–	–	(38)
At 31 December 2017	**85,944**	**36,240**	**66,345**	**179,843**	**127,350**	**6,897**	**13,177**	**17,820**	**533,616**
DEPRECIATION AND IMPAIRMENT									
At 1 January 2016	17,151	9,906	36,019	53,096	31,129	157	3,900	9,934	161,292
Exchange adjustment	11	–	–	25	–	–	–	–	36
Charge for the year	1,963	1,048	4,700	8,327	4,679	298	732	1,066	22,813
Impairment losses *(Note (i))*	149	–	10	1,551	–	–	13	2	1,725
Transferred from construction in progress	19	–	18	–	–	–	3	–	40
Disposals or write-off	(43)	(84)	(655)	(1,022)	(640)	–	(5)	(23)	(2,472)
Transferred to construction in progress, for overall technical enhancement	–	–	–	–	(122)	–	–	–	(122)
At 31 December 2016	19,250	10,870	40,092	61,977	35,046	455	4,643	10,979	183,312
Charge for the year	1,892	1,294	4,373	8,954	4,860	302	752	1,094	23,521
Adjustment	88	22	(58)	362	8	–	(11)	2	413
Impairment losses *(Note (i))*	584	34	118	746	6	–	21	2	1,511
Disposals or write-off	(100)	–	(1,405)	(3,175)	(400)	–	(2)	(4)	(5,086)
Exchange adjustment	(7)	–	–	(18)	–	–	–	–	(25)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings RMB million	Mining structures and mining rights RMB million	Mining related machinery and equipment RMB million	Generators, related machinery and equipment RMB million	Railway and port RMB million	Vessels RMB million	Coal chemical related machinery and equipment RMB million	Furniture, fixtures, motor vehicles and other equipment RMB million	Total RMB million
At 31 December 2017	**21,707**	**12,220**	**43,120**	**68,846**	**39,520**	**757**	**5,403**	**12,073**	**203,646**
CARRYING VALUES									
At 31 December 2017	**64,237**	**24,020**	**23,225**	**110,997**	**87,830**	**6,140**	**7,774**	**5,747**	**329,970**
At 31 December 2016	62,859	22,754	26,926	115,209	88,251	6,425	8,575	6,786	337,785
At 1 January 2016	59,826	20,970	30,021	114,706	90,105	6,696	9,220	7,782	339,326

Notes:

(i) Impairment loss

Impairment loss for cash-generating units

In 2017, owing to the unsatisfactory financial performance of certain Group's mines, the management identified certain non-current assets relating to coal mines having impairment indications. The Group tested the said mines, each of which is a separate cash-generating unit, for impairment by measuring the recoverable amount of every mine. The recoverable amount is determined based on discounted cash flow model covering the shorter of economic and legal useful life, and pre-tax discount rate ranging from 8.12% to 11.87%. Cash flows beyond the five-year approved management's budgets are prepared based on zero growth rate.

As a result of the impairment assessment, the Directors recognised no impairment loss in current year against the non-current assets in coal segments (2016: Nil).

Impairment loss for individual assets

In 2017, pursuant to the Regulatory Decision that the Non-licensed Power Generators shall not engage in Power Generation Business in the Western part of Inner Mongolia (Hua Bei Jian Neng Jue [2017] No. 3) issued by North China Energy Regulatory Bureau of National Energy Administration of the PRC, the Company's subsidiary in power segment, Inner Mongolia Zhunneng Coal Gangue Power Co., Ltd. will discontinue power generation soon. The management assessed the recoverable amounts of the affected non-current assets, including machineries and generators, and as a result the carrying amount of the machineries and the generators was written down by RMB605 million to their recoverable amount as at 31 December 2017.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(i) Impairment loss (Continued)

Impairment loss for individual assets (Continued)

Pursuant to the Several Opinions on Accelerating Shutting Down Small Thermal Power Units (Guo Fa [2007] No. 2) issued by the State Council of the PRC and the Notice on the Plan of Energy Conservation and Pollution Emissions Reduction Upgrading for the year 2014 to 2020 (Fa Gai Neng Yuan [2014] No. 2093) issued by National Development and Reform Commission of PRC, the Group is expected to close down soon the power plant operated by its subsidiary in power segment, Zhong Dian Guohua Shenmu Power Generation Co. Ltd.. The Group assessed the recoverable amounts of those non-current assets, including machineries and generators, and as a result the carrying amount of the machineries and the generators was written down by RMB200 million to their recoverable amount as at 31 December 2017.

The Group has been upgrading its power plants for energy conservation and environment protection which rendered certain non-current assets obsolete. The Group assessed the recoverable amounts of those non-current assets in power segment, including machineries and generators, and as a result the carrying amount of the machineries and the generators was written down by RMB164 million to their recoverable amount as at 31 December 2017 (2016: RMB584 million).

The estimates of recoverable amount of above assets were based on the machines' and generators' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry, adjusted for differences such as remaining useful lives, if the assets were classified as utilisable. Otherwise, the fair value was determined by using market comparison approach by reference to the weight and price of similar material, adjusted for differences such as geographical location of market. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement.

The Group had recognised an impairment loss of Australian Dollars ("AUD") 46 million (equivalent to RMB239 million) in June 2017 in relation to certain portion of freehold land located in Australia the use of which was changed during the year.

The fair value was determined by the management based on market prices of similar land. The land belongs to coal segment, and the fair value on which the recoverable amount is based on is categorised as a Level 2 measurement.

Further details of the circumstance leading to the change in the use of land are set out in Note 17.

(ii) The Group's freehold land with a carrying amount of RMB950 million (2016: RMB1,141 million) are located in Australia.

(iii) The Group was in the process of applying for the title certificates of certain of its properties with an aggregate carrying amount of RMB8,771 million as at 31 December 2017 (2016: RMB11,170 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(iv) As at 31 December 2017, the Group has bank loans secured by the Group's property, plant and equipment with carrying amount of RMB644 million (2016: RMB707 million).

16. CONSTRUCTION IN PROGRESS

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
At the beginning of the year	**35,220**	33,610
Additions	**19,273**	22,123
Transferred from property, plant and equipment for overall technical enhancement	**–**	30
Transferred to property, plant and equipment	**(13,819)**	(19,630)
Transferred to intangible assets	**(49)**	(106)
Transferred to lease prepayments	**(596)**	(459)
Transferred to other non-current assets	**(281)**	–
Net income from mine trial run	**(356)**	(319)
Disposal	**(163)**	(47)
Impairment losses	**(175)**	(22)
Impairment transferred to property, plant and equipment	**–**	40
At the end of the year	**39,054**	35,220

Note:

As at 31 December 2017, the Group is in the process of obtaining requisite permits of certain of its construction in progress from the relevant government authorities. The Directors are of the opinion that the Group will be able to obtain the requisite permits in due course.

17. EXPLORATION AND EVALUATION ASSETS

The movement of the exploration and evaluation assets is as follows:

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
At the beginning of the year	**2,344**	2,176
Exchange adjustments	**32**	119
Additions	**–**	49
Disposals *(Note)*	**(1,378)**	–
At the end of the year	**998**	2,344

Note:

On 29 June 2017, Shenhua Watermark Coal Pty Limited ("Watermark") reached an agreement with the state government of New South Wales, Australia ("the NSW Government") in relation to the partial extension of the exploration license covering total area of 195 square kilometres. Pursuant to the established policies of protection of agricultural activities on the black soil plains, the NSW Government withdrew the exploration license of approximately 100 square kilometres ("the withdrawn area") with a carrying amount of AUD214 million (equivalent to RMB1,120 million) and provided Watermark with compensation amounting to AUD262 million (equivalent to RMB1,364 million) and accepted the application for the extension of the exploration license for the area other than the withdrawn area under the said agreement.

18. INTANGIBLE ASSETS

The movement of intangible assets, mainly licenses, software and franchises, is as follows:

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
At the beginning of the year	**3,018**	2,964
Exchange adjustment	**(3)**	9
Additions	**915**	356
Transferred from construction in progress	**49**	106
Amortisation	**(449)**	(414)
Disposal	**(83)**	(3)
At the end of the year	**3,447**	3,018

19. INTERESTS IN ASSOCIATES

	31 December 2017	31 December 2016
	RMB million	*RMB million*
Unlisted shares, at cost	**7,557**	3,274
Share of post-acquisition profits and other comprehensive income, net of dividend received	**1,956**	1,868
	9,513	5,142

The Group's interests in associates are individually and in aggregate not material to the Group's financial position or results of operations for both years. The Group's associates are unlisted and established in the PRC. The following list contains only the particulars of associates, which principally affect the results or assets of the Group:

19. INTERESTS IN ASSOCIATES (CONTINUED)

Name of associate	Type of legal entity	Proportion of ownership interest and voting power held by the Group		Principal activities
		31 December 2017 %	31 December 2016 %	
Mengxi – Huazhong Railway Co., Ltd.	Limited company	**10 *(Note)***	10	Provision of transportation service
Shendong Tianlong Group Co., Ltd.	Limited company	**20**	20	Coal production and sale
Zhejiang Zheneng Jiahua Power Co., Ltd.	Limited company	**20**	20	Generation and sale of electricity
Sichuan Guangan Power Co., Ltd.	Limited company	**20**	20	Generation and sale of electricity
Guohua (Hebei) Renewables Co., Ltd.	Limited company	**25**	25	Generation and sale of electricity
Tianjin Yuanhua Shipping Co., Ltd.	Limited company	**44**	44	Provision of transportation service
Inner Mongolia Yili Chemical Industry Co., Ltd.	Limited company	**25**	25	Production and sale of chemicals

Note:

The Group is able to exercise significant influence over Mengxi – Huazhong Railway Co., Ltd. because it has the power to appoint one out of eleven directors of that company under the Article of Association of that company.

20. AVAILABLE-FOR-SALE INVESTMENTS

	Year ended 31 December	
	2017 *RMB million*	2016 *RMB million*
Unlisted investments:		
– equity securities	**749**	1,800
– investments in wealth management products	**105**	–
Total	**854**	1,800
Analysed for reporting purposes as:		
Non-current assets	**854**	1,800
	854	1,800

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

21. OTHER NON-CURRENT ASSETS

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Prepayments in connection with construction work, equipment purchases and others *(Note (i))*	**8,189**	7,713
Prepayment for mining projects	**8,000**	8,000
Deductible VAT and other tax	**1,834**	1,452
Long-term receivable	**318**	2,500
Loans to China Energy Group and fellow subsidiaries *(Note (ii))*	**9,699**	13,502
Long-term entrusted loans *(Note (iii))*	**420**	–
Goodwill	**889**	889
Others	**4,117**	2,693
	33,466	36,749

Notes:

(i) At 31 December 2017, the Group had prepayments to fellow subsidiaries amounting to RMB20 million (2016: RMB5 million).

(ii) The loans to China Energy Group and fellow subsidiaries bear interest at rates ranging from 4.28% to 4.41% per annum (2016: 4.28% to 4.41% per annum) and are receivables within two to eight years.

(iii) The Group has long-term entrusted loan of RMB420 million to an associate through a PRC state-owned bank, bearing interest at rate 4.75% per annum and variable by reference to the interest rate promulgated by People's Bank of China (the "PBOC").

22. LEASE PREPAYMENTS

Lease prepayments represent land use rights paid to the PRC's government authorities. The Group is in the process of applying for the title certificates of certain land use rights with an aggregate carrying amount of RMB2,097 million as at 31 December 2017 (2016: RMB2,526 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

As at 31 December 2017, the Group has bank loans secured by the Group's lease prepayments with carrying amount of RMB892 million (31 December 2016: Nil).

23. INVENTORIES

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Coal	**4,579**	5,563
Materials and supplies	**5,882**	6,424
Others *(Note)*	**1,186**	1,354
	11,647	13,341

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

24. ACCOUNTS AND BILLS RECEIVABLES

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Accounts receivables		
– China Energy Group and fellow subsidiaries	**2,377**	3,177
– Associates	**179**	284
– Third parties	**11,802**	13,138
	14,358	16,599
Less: allowance for doubtful debts	**(1,039)**	(420)
	13,319	16,179
Bills receivables		
– China Energy Group and fellow subsidiaries	**57**	18
– Associates	**54**	42
– Third parties	**6,025**	4,334
	6,136	4,394
	19,455	20,573

Bills receivables were mainly issued by PRC banks and are expiring within one year. As at 31 December 2017, the bills receivables with the carrying amount of RMB388 million (2016: RMB85 million) were pledged to secure bills payables.

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

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Less than one year	**10,411**	13,035
One to two years	**1,648**	1,996
Two to three years	**1,027**	1,010
More than three years	**233**	138
	13,319	16,179

24. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

The movement of allowance for doubtful debts was as follows:

	Year ended 31 December	
	2017	2016
	RMB million	*RMB million*
At the beginning of the year	**420**	194
Impairment loss		
– recognised	**760**	245
– amounts recovered	**(140)**	(10)
Written off	**(1)**	(9)
At the end of the year	**1,039**	420

The aging analysis of accounts receivables that are past due but not impaired are as follows:

	31 December 2017	31 December 2016
	RMB million	*RMB million*
Less than one year	**1,335**	2,115
One to two years	**1,399**	1,408
Two to three years	**377**	178
More than three years	**38**	52
	3,149	3,753

Receivables that were not overdue or unimpaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group, which the Group does not hold any collateral over these balances. Based on past experience, the management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in accounts receivables are the following amounts denominated in foreign currencies are set out below:

	31 December 2017	31 December 2016
	RMB million	*RMB million*
United States Dollars ("USD")	**105**	486
European Dollars ("EUR")	**–**	140
	105	626

24. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

Transfers of financial assets

As at 31 December 2017, the Group endorsed bills receivables amounting to RMB1,859 million (2016: RMB2,075 million) to suppliers to settle the accounts payables of same amounts and discounted bills receivables amounting to RMB137 million (2016: RMB446 million) to banks. In accordance to the relevant laws in the PRC, the holders of the bills receivables have a right of recourse against the Group if the issuing banks default payment (the "Continuing Involvement"). In the opinion of the Directors, the fair values of the Continuing Involvement are insignificant, and the Group has transferred substantially all the risks and rewards of ownership relating to these bills receivables, and accordingly derecognised the full carrying amounts of the bills receivables, in case of bills receivables endorsed to suppliers, derecognised the associated accounts payables.

25. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Financial assets at FVTPL		
– Derivative financial instruments	**56**	4
– Tradable wealth management products	**52**	50
	108	54
Available-for-sale investments		
– Wealth management products *(Note (i))*	**–**	33,350
	108	33,404
Prepaid expenses and deposits	**8,115**	7,029
Loans and advances to China Energy Group and fellow subsidiaries *(Note (ii))*	**5,262**	2,209
Amounts due from associates	**535**	973
Deductible VAT and other tax	**3,075**	3,396
Other receivables	**3,357**	1,781
	20,452	48,792

Notes:

(i) As at 31 December 2016, the Group invested in principal-guaranteed floating income wealth management products amounting to RMB31,000 million with term of 90 days and expected annual rates of return ranging from 3.20% to 3.35%, and non-principal-guaranteed floating income wealth management products amounting to RMB2,350 million with term ranging from 32 days to 365 days and expected annual rates of return ranging from 4.10% to 4.55%. The wealth management products held by the Group are valued by discounting cash flow method, the detailed fair value measurements are disclosed in Note 37.3.

(ii) As at 31 December 2017, the Group had loans to China Energy Group and fellow subsidiaries amounting to RMB5,059 million (2016: RMB2,087 million), which bear interest at rates ranging from 3.92% to 4.28% per annum (2016: 3.92% to 5.04% per annum). The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

26. RESTRICTED BANK DEPOSITS

Restricted bank deposits as at 31 December 2017 represent statutory deposit reserves at the PBOC, collaterals for bills payables and collaterals related to the operating of mines and ports.

27. CASH AND CASH EQUIVALENTS

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

Included in cash and cash equivalents are the following amounts denominated in foreign currencies are set out below:

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
USD	**776**	111
HKD	**2**	2
EUR	**40**	28
	818	141

28. DEFERRED TAXATION

For the purpose of the presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose.

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Deferred tax assets	**3,798**	3,849
Deferred tax liabilities	**(749)**	(797)
	3,049	3,052

28. DEFERRED TAXATION (CONTINUED)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

	At 1 January 2017 RMB million	Credited (charged) in profit or loss/ other comprehensive income RMB million	At 31 December 2017 RMB million
Allowances, primarily for receivables and inventories	503	23	526
Property, plant and equipment	769	(7)	762
Lease prepayments	(169)	2	(167)
Tax losses utilised	461	(137)	324
Tax allowable expenses not yet incurred	1	–	1
Unrealised profits from sales within the Group	1,187	(84)	1,103
Accrued salaries and other expenses not yet paid	188	22	210
Others	112	178	290
Net deferred tax assets	3,052	(3)	3,049

	At 1 January 2016 RMB million	Credited in profit or loss RMB million	At 31 December 2016 RMB million
Allowances, primarily for receivables and inventories	417	86	503
Property, plant and equipment	427	342	769
Lease prepayments	(171)	2	(169)
Tax losses utilised	384	77	461
Tax allowable expenses not yet incurred	(62)	63	1
Unrealised profits from sales within the Group	558	629	1,187
Accrued salaries and other expenses not yet paid	170	18	188
Others	73	39	112
Net deferred tax assets	1,796	1,256	3,052

At the end of the reporting period, the Group have unused tax losses of RMB8,564 million (31 December 2016: RssssMB8,714 million) and unrecognised deductible temporary differences of RMB6,555 million (2016: RMB5,804 million) available for offset against future profits. A deferred tax assets has been recognised in respect of RMB1,296 million (31 December 2016: RMB1,845 million) of such losses. No deferred tax assets has been recognised in respect of the remaining RMB7,268 million (31 December 2016: RMB6,869 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB683 million (31 December 2016: RMB398 million) that will expire in 2018.

29. BORROWINGS

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

	31 December 2017 RMB million	31 December 2016 RMB million
Current borrowings:		
Short-term bank and other borrowings	9,493	4,384
Current portion of long-term borrowings	6,292	7,427
	15,785	11,811
Non-current borrowings:		
Long-term borrowings, less current portion	64,321	58,462
	80,106	70,273
Secured	9,381	9,114
Unsecured	70,725	61,159
	80,106	70,273

The Group's short-term borrowings are unsecured and bear interest at rates ranging from 3.85% to 4.79% per annum (2016: 3.70% to 5.04% per annum), and long-term borrowings bear interest at rates ranging from 1.08% to 6.55% per annum (2016: 1.08% to 6.55% per annum).

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

	31 December 2017 RMB million	31 December 2016 RMB million
Within one year	6,292	7,427
More than one year, but not exceeding two years	6,141	5,657
More than two years, but not exceeding five years	17,089	13,040
More than five years	41,091	39,765
	70,613	65,889

29. BORROWINGS (CONTINUED)

The Group's long-term borrowings comprise:

		31 December 2017 *RMB million*	31 December 2016 *RMB million*
Loans from banks and other institutions			
RMB denominated	Interest rates ranging from 1.08% to 6.55% per annum with maturities through 22 January 2036	**66,357**	61,677
USD denominated	Interest rates ranging from Libor+0.7% to Libor+2.85% per annum with maturities through 26 December 2034	**2,111**	1,722
Japanese Yen ("JPY") denominated	Interest rates ranging from 1.80% to 2.60% per annum with maturities through 20 March 2031	**2,119**	2,445
EUR denominated	Interest rate at 2.85% per annum with maturities through 22 June 2022	**26**	45
		70,613	65,889
Less: current portion of long-term borrowings		**6,292**	7,427
		64,321	58,462

As at 31 December 2017, included in the above outstanding borrowings, were entrusted loans from China Energy Group and fellow subsidiaries amounting to RMB1,374 million (2016: RMB4,824 million).

Certain borrowings are secured over certain property, plant and equipment with a carrying amount of RMB644 million (2016: RMB707 million) (see Note 15), certain lease prepayments with a carrying amount of RMB892 million (2016: Nil) (see Note 22), certain future power revenue to be generated by the Group, the investment in a subsidiary of the Company and a guarantee by a non-controlling shareholder of a subsidiary.

30. MEDIUM-TERM NOTES AND BONDS

On 7 November 2013, the Company issued medium-term notes with proceeds of approximately RMB5,000 million and are repayable on 11 November 2018. The notes bear interest rate of 5.49% per annum, repayable annually. The effective interest rate is 5.69% per annum.

On 19 August 2014, the Company issued medium-term notes with proceeds of approximately RMB10,000 million and were repaid on 21 August 2017. The notes bear interest rate of 5.10% per annum, repayable annually. The effective interest rate is 5.17% per annum.

On 16 September 2014, the Company issued medium-term notes with proceeds of approximately RMB10,000 million and were repaid on 18 September 2017. The notes bear interest rate of 5.04% per annum, repayable annually. Its effective interest rate is 5.11% per annum.

On 20 January 2015, China Shenhua Overseas Capital Company Limited ("Shenhua Overseas Capital") issued Dollar bonds with proceeds of USD500 million, approximately RMB3,061 million and are payable on 19 January 2018. The bonds bear interest rate of 2.50% per annum, repayable semi-annually. Its effective interest rate is 2.84% per annum.

On 20 January 2015, Shenhua Overseas Capital issued Dollar bonds with proceeds of USD500 million, approximately RMB3,061 million and are payable on 19 January 2020. The bonds bear interest rate of 3.13% per annum, repayable semi-annually. Its effective interest rate is 3.35% per annum.

On 20 January 2015, Shenhua Overseas Capital issued Dollar bonds with proceeds of USD500 million, approximately RMB3,061 million and are payable on 19 January 2025. The bonds bear interest rate of 3.88% per annum, repayable semi-annually. Its effective interest rate is 4.10% per annum.

The net proceeds of the Dollar bonds issued were mainly used for the repayment of loans of subsidiaries.

31. ACCOUNTS AND BILLS PAYABLES

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Accounts payables		
– China Energy Group, an associate of China Energy Group and fellow subsidiaries	**1,874**	2,140
– Associates	**283**	218
– Third parties	**29,431**	29,624
	31,588	31,982
Bills payables	**2,326**	3,174
	33,914	35,156

As at 31 December 2017, certain bills payables were secured by bills receivables held by the Group (see Note 24).

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

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Less than one year	**25,241**	26,296
One to two years	**2,576**	4,184
Two to three years	**2,431**	2,320
More than three years	**3,666**	2,356
	33,914	35,156

Included in accounts and bills payables are the following amounts denominated in foreign currencies are set out below:

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
USD	**1,398**	486
EUR	**7**	154
Great British Pounds	**2**	19
	1,407	659

32. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Accrued staff wages and welfare benefits	**4,042**	3,727
Accrued interest payable	**472**	705
Taxes payable other than income tax	**7,408**	6,911
Dividends payable	**4,149**	2,665
Cross-currency exchange rate swaps	**12**	–
Receipts in advances	**5,530**	4,196
Deposits from China Energy Group and fellow subsidiaries *(Note (i))*	**20,075**	13,492
Other accrued expenses and payables *(Note (ii))*	**10,307**	9,665
	51,995	41,361

Notes:

(i) As at 31 December 2017, deposits from China Energy Group and fellow subsidiaries bore interest at 0.42% to 1.62% per annum (2016: 0.42% to 1.62% per annum).

(ii) Other accrued expenses and payables of the Group included:

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Amounts due to China Energy Group and fellow subsidiaries	**1,238**	1,945
Amounts due to associates	**28**	54
	1,266	1,999

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

33. LONG-TERM LIABILITIES

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Payables for acquisition of mining rights *(Note (i))*	**852**	1,093
Deferred income *(Note (ii))*	**1,367**	1,328
Defined benefit plans	**128**	147
Others	**290**	286
	2,637	2,854
Analysed for reporting purpose as:		
Current liabilities	**345**	403
Non-current liabilities	**2,292**	2,451
	2,637	2,854

Notes:

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

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

34. ACCRUED RECLAMATION OBLIGATIONS

	Year ended 31 December	
	2017 *RMB million*	2016 *RMB million*
At the beginning of the year	**2,549**	2,197
Addition for the year	**58**	220
Accretion expense	**138**	132
At the end of the year	**2,745**	2,549

35. SHARE CAPITAL

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Registered, issued and fully paid:		
16,491,037,955 domestic listed A shares of RMB1.00 each	**16,491**	16,491
3,398,582,500 H shares of RMB1.00 each	**3,399**	3,399
	19,890	19,890

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

36. CAPITAL RISK MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debts.

The Group monitors capital using a gearing ratio which is total liabilities divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2017 was 34% (2016: 33%).

There were no changes in the Group's approach to capital management compared with previous years.

37. FINANCIAL INSTRUMENTS

37.1 Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Financial assets		
Available-for-sale investments	**854**	1,800
Loans and receivables (including cash and cash equivalents)	**125,517**	95,651
Derivative financial instruments	**56**	54
Tradable wealth management products	**52**	33,350
Financial liabilities		
Amortised cost	**164,633**	172,081

37. FINANCIAL INSTRUMENTS (CONTINUED)

37.2 Financial risk management objectives and policies

The Group's major financial instruments include accounts and bills receivables, loans and advances to/deposits from/amounts due to China Energy Group and fellow subsidiaries, amounts due from/to associates, other receivables, accounts and bills payables, borrowings, other payables, long-term liabilities, medium-term notes and bonds. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate and currency risks), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The functional currency of most of the group entities is RMB in which most of the transactions are denominated. However, certain of the Group's borrowings, receivables, bank balances and payables are denominated in foreign currencies. The Group entered into cross-currency exchange rate swaps with bank with good reputation in respect of its certain interest payments of borrowings denominated in USD in order to mitigate the risk from the fluctuation of USD against RMB, and the carrying amounts are set out in Note 29.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31 December		31 December	
	2017	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*
USD	**3,286**	2,208	**870**	597
JPY	**2,119**	2,445	**–**	–
Other currencies	**35**	218	**42**	170

Sensitivity analysis

The following table details the Group's sensitivity to a 10% increase or decrease in exchange rate of each foreign currency against RMB, while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the end of the reporting period.

	USD		JPY		Other currencies	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
(Decrease) increase in profit after tax for the year:						
– if RMB weakens against foreign currencies	**(198)**	(121)	**(159)**	(183)	**–**	(4)
– if RMB strengthens against foreign currencies	**198**	121	**159**	183	**–**	4

37. FINANCIAL INSTRUMENTS (CONTINUED)

37.2 Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan and receivables, borrowings, medium-term notes and bonds (see Notes 25, 29 and 30). The Group has entered into interest rate swaps to hedge against its exposures to changes in fair values of its certain interest payments of borrowings (see Note 29).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings and variable-rate loans and receivables (see Notes 29 and 21). Other than the concentration of interest rate risk related to the movements in London Interbank Offered Rate and the loan interest published by the PBOC, the Group has no significant concentration of interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings and variable-rate loans and receivables at the end of the reporting period. No sensitivity analysis has been presented for the exposure to interest rates for bank balances as the management of the Group considers that, taking into account that the fluctuation in interest rates on bank balances is minimal, the impact of profit or loss for the year is insignificant.

The analysis is prepared assuming variable-rate borrowings and variable-rate loans and receivables outstanding at the end of the reporting period were outstanding for the whole year.

If interest rates had been 100 basis points (2016: 100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would decrease/increase by RMB324 million (2016: decrease/increase by RMB259 million).

37. FINANCIAL INSTRUMENTS (CONTINUED)

37.2 Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liability in relation to the financial guarantees provided by the Group as disclosed in Note 39.3.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt on regular basis and at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In respect of the risk arising from the provision of financial guarantees, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties that the Group issued financial guarantee contracts in favor of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, the Group does not have any other significant concentration of credit risk. Accounts receivables consist of a large number of customers, which spread across diverse industries and located in the PRC.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

37. FINANCIAL INSTRUMENTS (CONTINUED)

37.2 Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the remaining contractual maturity of the Group's financial liabilities at the end of the reporting period, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	31 December 2017						
	Weighted average interest rate	On demand or less than 1 year	1-2 years	2-5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	%	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Financial liabilities:							
Accounts and bills payables, other payables and long-term liabilities		69,148	120	236	505	70,009	69,780
Borrowings variable interest rate	4.54	18,785	9,530	20,012	49,278	97,605	72,998
Borrowings fixed interest rate	3.17	1,073	1,143	3,746	2,254	8,216	7,108
Medium-term notes and bonds	4.45	8,736	229	3,652	3,527	16,144	14,747
		97,742	11,022	27,646	55,564	191,974	164,633

	31 December 2016						
	Weighted average interest rate	On demand or less than 1 year	1-2 years	2-5 years	More than 5 years	Total undiscounted cash flows	Total carrying amount
	%	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Financial liabilities:							
Accounts and bills payables, other payables and long-term liabilities		65,695	206	436	425	66,762	66,503
Borrowings variable interest rate	4.60	10,676	7,727	18,064	46,839	83,306	60,986
Borrowings fixed interest rate	3.94	4,931	543	2,583	2,653	10,710	9,287
Medium-term notes and bonds	4.58	21,287	8,952	3,986	3,879	38,104	35,305
		102,589	17,428	25,069	53,796	198,882	172,081

Saved as discussed above, the Group also makes use of banks and financial institutions facilities as one of the effective sources of liquidity.

The maximum liability of financial guarantees issued by the Group is disclosed in Note 39.3.

37. FINANCIAL INSTRUMENTS (CONTINUED)

37.3 Fair value measurements

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

As of 31 December 2017, the Group has financial assets investments in derivative financial instruments, tradable wealth management products, and wealth management products which are measured at fair value of RMB56 million (2016: RMB4 million), RMB52 million (2016: RMB50 million), and RMB105 million (2016: RMB33,350 million), respectively. The Group has financial liabilities in derivative financial instruments which are measured at fair value of RMB12 million (2016: Nil).

	At 31 December 2017 *RMB million*	At 31 December 2016 *RMB million*	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets:				
Derivative financial instruments	**56**	4	Level 1	Quoted price in an active market.
Tradable wealth management products	**52**	50	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return of comparable products.
AFS-wealth management products	**105**	33,350	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return of comparable products.
Financial liabilities:				
Derivative financial instruments	**12**	–	Level 2	Quoted market prices or dealer prices for similar instruments.

There were no transfer between Level 1 and Level 2 during the year ended 31 December 2017 and 2016.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	At 31 December 2017		At 31 December 2016	
	Carrying amount *RMB million*	Fair value *RMB million*	Carrying amount *RMB million*	Fair value *RMB million*
Financial liabilities:				
Fixed rate bank borrowings	**6,658**	**6,670**	8,507	8,567
Fixed rate medium-term notes	**4,995**	**5,009**	24,974	25,282
Fixed rate bonds	**9,752**	**9,903**	10,331	10,436

37. FINANCIAL INSTRUMENTS (CONTINUED)

37.3 Fair value measurements (Continued)

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (Continued)

The fair value of fixed rate bank borrowings above in the Level 2 category is measured using discounted cash flow method where the future cash flows are estimated based on the contract and discounted at a rate that reflects the credit risk of the issuers.

The fair values of medium-term notes and bonds are included in the Level 1 category, which have been derived from the quoted prices (unadjusted) in an active market.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below shows the detailed changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings *RMB million* *Note 29*	Medium-term notes *RMB million* *Note 30*	Bonds *RMB million* *Note 30*	Accrued interest payable *RMB million* *Note 32*	Total *RMB million*
At 1 January 2017	70,273	24,974	10,331	705	106,283
Financing cash flows	10,161	(20,000)	–	(5,762)	(15,601)
Foreign exchange	(328)	–	(599)	–	(927)
Amortisation of discount on notes and bonds	–	21	20	–	41
Interest expenses	–	–	–	5,529	5,529
At 31 December 2017	80,106	4,995	9,752	472	95,325

39. COMMITMENTS AND CONTINGENT LIABILITIES

39.1 Capital commitments

As at 31 December, the Group had capital commitments for land and buildings and equipment as follows:

	31 December 2017 ***RMB million***	31 December 2016 *RMB million*
Contracted for but not provided		
– Land and buildings	**19,485**	23,604
– Equipment	**14,425**	17,200
	33,910	40,804

39. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

39.2 Operating lease commitments

Operating lease commitments mainly represent business premises, mining related machineries and equipments leased through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. As at 31 December, future minimum lease payments under non-cancellable operating leases on business premises, mining related machineries and equipments having initial or remaining lease terms of more than one year are payable as follows:

	31 December 2017 *RMB million*	31 December 2016 *RMB million*
Within one year	**373**	45
After one year but within five years	**1,144**	23
After five years	**606**	–
	2,123	68

39.3 Financial guarantees issued

As at 31 December 2017, the Group had issued certain guarantees in respect of certain banking facilities granted to an entity which the Group held less than 20% equity interest. The maximum amount guaranteed is RMB182 million (2016: RMB191 million).

As at 31 December 2017, the Group had issued certain guarantees in respect of certain banking facilities granted to an associate of the Group. The maximum amount guaranteed is RMB40 million (31 December 2016: Nil).

39.4 Legal contingencies

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

39. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

39.5 Environmental contingencies

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

40. EMPLOYEE BENEFITS PLAN

In addition to a minimal defined benefit plan operated by its subsidiary, the Group participates, in line with the regulations of the PRC, mainly in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 20% of the salaries, bonuses and certain allowances of the employees. In addition, as approved by the government, the Group makes contribution to a supplemental defined contribution pension plan for its employees. The fund is managed by a qualified fund manager. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2017 were RMB2,886 million (2016: RMB2,728 million).

41. RELATED PARTY TRANSACTIONS

41.1 Transactions with China Energy Group, an associate of China Energy Group, fellow subsidiaries, and associates of the Group

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

The Group had the following transactions with China Energy Group, an associate of China Energy Group, fellow subsidiaries, and associates of the Group that were carried out in the normal course of business during both years:

		2017 *RMB million*	2016 *RMB million*
Interest income	(i)	**652**	634
Income from entrusted loans	(ii)	**31**	33
Interest expense	(iii)	**248**	242
Purchases of ancillary materials and spare parts	(iv)	**776**	1,347
Mining service income	(v)	**90**	–
Ancillary and social services	(vi)	**385**	688
Transportation service income	(vii)	**193**	195
Transportation service expense	(viii)	**–**	–
Sale of coal	(ix)	**6,257**	4,724
Purchase of coal	(x)	**9,139**	6,227
Property leasing	(xi)	**88**	48
Repairs and maintenance services expense	(xii)	**47**	44
Coal export agency expense	(xiii)	**11**	9
Purchase of equipment and construction work	(xiv)	**1,119**	1,021
Sale of coal chemical product	(xv)	**4,382**	3,804
Other income	(xvi)	**2,084**	2,123
Granting of loans from Shenhua Finance	(xvii)	**2,281**	4,768
Repayment of loans from Shenhua Finance	(xviii)	**3,067**	3,900
Granting of entrusted loan	(xix)	**420**	–
Repayment of entrusted loan	(xx)	**627**	–
Net deposits received (paid) by Shenhua Finance	(xxi)	**6,583**	(11,008)
Loans from China Energy Group	(xxii)	**–**	–
Repayment of loans from China Energy Group	(xxiii)	**3,450**	2,600

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

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

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

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

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

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

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

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

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

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

(xii) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by fellow subsidiaries.

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

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

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

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

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

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

(xix) Granting of entrusted loan represents an entrusted loan granted to an associate of the Group.

(xx) Repayment of entrusted loan represents an entrusted loan repaid by an associate of the Group.

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

(xxii) Loans obtained by the Group.

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

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

The Group entered into a number of agreements with China Energy Group, an associate of China Energy Group, fellow subsidiaries, and associates of the Group. The terms of the principal agreements are summarised as follows:

(i) The Group has entered into a mutual supply agreement for the mutual provision of production supplies and ancillary services with an associate of China Energy Group and fellow subsidiaries. Pursuant to the agreement, an associate of China Energy Group and fellow subsidiaries provide the Group with the production supplies and services, ancillary production services including the use of the information network system and ancillary administrative services. On the other hand, the Group provides fellow subsidiaries with water supplies, rolling stock management, railway management, railway transportation and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreement, other than the sharing of use of the information network system which is free of charge, are provided in accordance with the following pricing policy:

- price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- where there is no state-prescribed price but where there is a state-guidance price, then the state-guidance price;
- where there is neither a state-prescribed price nor a state-guidance price, the market price; or
- where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price to be agreed between the relevant parties shall be based on reasonable costs incurred in providing the goods or services plus a profit margin of 5% of such costs.

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(ii) The Group has entered into coal supply agreements with fellow subsidiaries and associates of the Group. The coal supplied is charged at the prevailing market price.

(iii) The Group, through Shenhua Finance, has entered into a financial services agreement with China Energy Group and fellow subsidiaries. Pursuant to the agreement, Shenhua Finance provides financial services to China Energy Group and fellow subsidiaries. The interest rate for the deposits with Shenhua Finance from China Energy Group and fellow subsidiaries should not be lower than the lowest limit published by the PBOC for the same type of deposit. The interest rate for loans made by Shenhua Finance to China Energy Group and fellow subsidiaries should not be higher than the highest limit published by the PBOC for the same type of loan. The above interest rates should be determined by reference to the rate charged by normal commercial banks in the PRC for comparable deposits and loans on normal commercial terms. The fees charged by Shenhua Finance for the provision of other financial services shall be determined according to the rates chargeable by the PBOC or the China Banking Regulatory Commission.

(iv) The Group has entered into a property leasing agreement with fellow subsidiaries for leasing of certain properties to each other. No rent is payable by the Group before fellow subsidiaries obtains the relevant property ownership certificate. The rental charges are based on comparable market rates. If fellow subsidiaries negotiate to sell a leased property to a third party, the Company has a pre-emptive right to purchase such property under terms no less favorable than other third party.

(v) The Group has entered into a land leasing agreement with fellow subsidiaries. The annual rent is determined based on the local market rate. The Group is not allowed to sub-let the leased land.

(vi) The Group has entered into an agency agreement for the export of coal with a fellow subsidiary. The fellow subsidiary is appointed as a non-exclusive export agent of the Group and is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board sales price of coal exported.

(vii) The Group entered into an agency agreement for the sale of coal with fellow subsidiaries. The Group is appointed as the exclusive sales agent of fellow subsidiaries for thermal coal and non-exclusive sales agent for coking coal. The Group is entitled to receive an agency fee, which is based on its related costs incurred plus a profit margin of 5% for sales of coal outside the Inner Mongolia Autonomous Region. No agency fee is charged for sales of coal within the Inner Mongolia Autonomous Region.

(viii) The Group has entered into agreements with fellow subsidiaries under which the Group has been granted the right to use certain trademarks. Fellow subsidiaries bear its own cost for the registration of such trademarks during the term of the trademarks license agreement and expenses for enforcement against any infringement of the licensed trademarks by third parties.

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	Notes	**31 December 2017** ***RMB million***	31 December 2016 *RMB million*
Accounts and bills receivables	24	**2,594**	3,458
Prepaid expenses and other current assets	25	**5,797**	3,182
Other non-current assets	21	**10,139**	13,507
Total amounts due from China Energy Group, an associate of China Energy Group, fellow subsidiaries and associates of the Group		**18,530**	20,147
Borrowings	29	**1,374**	4,824
Accounts payables	31	**2,157**	2,358
Accrued expenses and other payables	32	**21,341**	15,491
Total amounts due to China Energy Group,an associate of China Energy Group and fellow subsidiaries, and associates of the Group		**24,872**	22,673

Other than those disclosed in Notes 21, 25, 29 and 32, amounts due from/to China Energy Group, an associate of China Energy Group, fellow subsidiaries, and associates of the Group bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

41.2 Key management personnel emoluments

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

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

	2017 ***RMB million***	2016 *RMB million*
Short-term employee benefits	**10**	8
Post-employment benefits	**1**	1
	11	9

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

41. RELATED PARTY TRANSACTIONS (CONTINUED)

41.3 Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments and a supplemental defined contribution pension plan approved by the government for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 40.

41.4 Transactions with other government-related entities in the PRC

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

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

– Power sales;

– Sales and purchases of coal;

– Transportation services;

– Construction work;

– Purchases of ancillary materials and spare parts;

– Ancillary and social services; and

– Financial services arrangements.

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

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

	2017 RMB million	2016 RMB million
Coal revenue	97,212	69,822
Power revenue	77,303	67,472
Transportation costs	11,501	7,618
Interest income	959	691
Interest expenses (including amount capitalised)	5,461	5,463

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

	31 December 2017 RMB million	31 December 2016 RMB million
Accounts and bills receivables	7,954	12,354
Prepaid expenses and other current assets	683	1,289
Cash and time deposits at banks	73,728	44,602
Restricted bank deposits	7,348	6,141
Borrowings	78,326	64,578
Accrued expenses and other payables	2,915	3,669

42. EVENTS AFTER THE REPORTING PERIOD

On 1 March 2018, the Company and GD Power Development Co., Ltd. (the "GD Power") entered into a joint venture agreement. Pursuant to the agreement, GD Power and the Company proposed to contribute the equities and assets of relevant coal-fired power generation companies into the joint venture. Based on the agreement, GD Power will hold 57.47% of equity interests in the joint venture, and the Company will hold 42.53% of equity interests in the joint venture. The joint venture agreement will become effective upon approvals from general meetings of GD Power and the Company, and relevant authorities, in which uncertainties remain.

On 23 March 2018, the Directors proposed a final dividend of RMB0.91 per ordinary share totaling RMB18,100 million to the equity holders of the Company. Further details are disclosed in Note 13.

43. SUBSIDIARIES

Details of the Company's material subsidiaries

The Company's subsidiaries are unlisted. Details of the Company's material subsidiaries at the end of the reporting period are set out below:

Name of the subsidiary	Place of incorporation and operation	Type of legal entity	Particulars of registered capital	Proportion of ownership interest and voting rights held by the Group		Principal activities
				31 December 2017 %	31 December 2016 %	
Shenhua Sales Group Co., Ltd.	PRC	Limited company	RMB1,889 million	**100**	100	Trading of coal
Shenwan Energy Co., Ltd.	PRC	Limited company	RMB4,696 million	**51**	51	Trading of coal
Shenhua Shendong Group Co., Ltd.	PRC	Limited company	RMB4,989 million	**100**	100	Trading of coal; Coal provision of integrated services
Shenhua Zhunge'er Energy Co., Ltd.	PRC	Limited company	RMB7,102 million	**58**	58	Coal mining and development; generation and sale of electricity
Shenhua Baorixile Energy Industrial Co., Ltd.	PRC	Limited company	RMB1,169 million	**57**	57	Coal mining; provision of loading and transportation services
Shenhua Beidian Shengli Energy Co., Ltd.	PRC	Limited company	RMB2,720 million	**63**	63	Coal mining; provision of loading and transportation services
Shaanxi Guohua Jinjie Energy Co., Ltd.	PRC	Limited company	RMB2,278 million	**70**	70	Generation and sale of electricity; coal mining and development
Shenhua Guohua International Power Co., Ltd.	PRC	Limited company	RMB4,010 million	**70**	70	Generation and sale of electricity
Shenhua Shendong Power Co., Ltd.	PRC	Limited company	RMB3,024 million	**100**	100	Generation and sale of electricity
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	PRC	Limited company	RMB4,670 million	**80**	80	Generation and sale of electricity
Zhejiang Guohua Zheneng Power Generation Co., Ltd.	PRC	Limited company	RMB3,255 million	**60**	60	Generation and sale of electricity
Suizhong Power Co., Ltd. *(Note (i))*	PRC	Limited company	RMB4,029 million	**65**	65	Generation and sale of electricity

43. SUBSIDIARIES (CONTINUED)

Details of the Company's material subsidiaries (Continued)

Name of the subsidiary	Place of incorporation and operation	Type of legal entity	Particulars of registered capital	Proportion of ownership interest and voting rights held by the Group		Principal activities
				31 December 2017 %	31 December 2016 %	
Hebei Guohua Cangdong Power Co., Ltd.	PRC	Limited company	RMB1,834 million	**51**	51	Generation and sale of electricity
Dingzhou Power *(Note (ii))*	PRC	Limited company	RMB1,561 million	**41**	41	Generation and sale of electricity
Guohua Taicang Power Co., Ltd. *(Note (iii))*	PRC	Limited company	RMB2,000 million	**50**	50	Generation and sale of electricity
Shenhua Sichuan Energy Co., Ltd.	PRC	Limited company	RMB2,152 million	**51**	51	Generation and sale of electricity; trading of coal
Shenhua Fujian Energy Co., Ltd.	PRC	Limited company	RMB2,551 million	**100**	100	Generation and sale of electricity
Shuohuang Railway Development Co., Ltd.	PRC	Limited company	RMB5,880 million	**53**	53	Provision of transportation services
Shenhua Zhunchi Railway Co., Ltd.	PRC	Limited company	RMB4,710 million	**85**	85	Provision of transportation services
Shenhua Huanghua Harbour Administration Co., Ltd.	PRC	Limited company	RMB6,790 million	**70**	70	Provision of harbour and port services
Shenhua Zhonghai Shipping Co., Ltd.	PRC	Limited company	RMB5,180 million	**51**	51	Provision of Transportation services
Shenhua Baotou Coal Chemical Co., Ltd.	PRC	Limited company	RMB5,132 million	**100**	100	Coal chemical
Shenhua Railway Transportation Co., Ltd.	PRC	Limited company	RMB4,803 million	**100**	100	Provision of transportation
Shenhua Finance	PRC	Limited company	RMB5,000 million	**100**	100	Provision of financial services
China Shenhua Overseas Development & Investment Co., Ltd.	Hong Kong	Limited company	HKD5,252 million	**100**	100	Investment holding

43. SUBSIDIARIES (CONTINUED)

Details of the Company's material subsidiaries (Continued)

Name of the subsidiary	Place of incorporation and operation	Type of legal entity	Particulars of registered capital	Proportion of ownership interest and voting rights held by the Group		Principal activities
				31 December 2017 %	31 December 2016 %	
Shenhua Australia Holding Pty Ltd.	Australia	Limited company	AUD400 million	**100**	100	Coal mining and development;generation and sale of electricity
Shenhua Watermark Coal Pty Ltd.	Australia	Limited company	AUD350 million	**100**	100	Coal mining and development; generation and sale of electricity
PT GH EMM Indonesia	Indonesia	Limited company	USD63 million	**70**	70	Coal mining and development; generation and sale of electricity
Shenhua Baoshen Railway Group Co., Ltd.	PRC	Limited company	RMB10,000 million	**100**	100	Provision of transportation services
(Tianjin) Finance Lease Co., Ltd.	PRC	Limited company	RMB1,765 million	**100**	100	Provision of financial lease services
Shenhua Zhunneng Resources Development & Utilisation Co., Ltd.	PRC	Limited company	RMB1,200 million	**100**	100	Comprehensive utilisation of inferior coal resources
Xuzhou Power	PRC	Limited company	RMB1,790 million	**100**	100	Generation and sale of electricity
Zhoushan Power	PRC	Limited company	RMB804 million	**51**	51	Generation and sale of electricity

The above table lists subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year except for Shenhua Overseas Capital which has issued USD1,500 million (equivalent to RMB9,183 million) of bonds, which are set out in Note 30, in which the Group has no interest.

Notes:

(i) In addition to 15% equity interest held by the Company, the Company's subsidiary owned 50% equity interest in Suizhong Power Co., Ltd.

(ii) The Company obtained the control over Dingzhou Power through its right to appoint majority members of the board of directors, details of which are set out in Note 4.1.

(iii) The Company has the control over Guohua Taicang Power Co. through its voting rights over 50%.

43. SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Name of the subsidiary	Place of incorporation and operation	Proportion of ownership interest and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2017 %	31 December 2016 %	Year ended 31 December 2017 RMB million	2016 RMB million	31 December 2017 RMB million	31 December 2016 RMB million
Shenwan Energy Co., Ltd.	PRC	49	49	205	434	4,076	3,976
Shenhua Zhunge'er Energy Co., Ltd.	PRC	42	42	1,415	576	12,075	10,636
Shenhua Baorixile Energy Industrial Co., Ltd.	PRC	43	43	457	206	2,231	1,885
Hebei Guohua Cangdong Power Co., Ltd.	PRC	49	49	175	329	1,328	1,449
Dingzhou Power	PRC	59	59	331	503	1,795	1,928
Shenhua Sichuan Energy Co., Ltd.	PRC	49	49	(125)	(36)	1,424	1,550
Shuohuang Railway Development Co., Ltd.	PRC	47	47	3,587	3,062	15,021	14,112
Shenhua Zhonghai Shipping Co., Ltd.	PRC	49	49	227	70	3,105	2,940
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	PRC	20	20	114	206	1,544	1,525
Shenhua Huanghua Harbour Administration Co., Ltd.	PRC	30	30	506	367	3,085	2,866
Shenhua Guohua International Power Co., Ltd.	PRC	30	30	302	302	2,989	3,010
Zhejiang Guohua Zheneng Power Generation Co., Ltd.	PRC	40	40	298	414	2,138	2,212
Individually immaterial subsidiaries with non-controlling interests						22,753	48,089
						73,564	67,994

43. SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

	Shenwan Energy Co., Ltd.		Shenhua Zhunge'er Energy Co., Ltd.		Shenhua Baorixile Energy Industrial Co., Ltd.		Hebei Guohua Cangdong Power Co., Ltd.	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Current assets	**1,302**	1,145	**18,119**	13,580	**2,774**	1,967	**1,029**	1,233
Non-current assets	**12,492**	12,292	**18,012**	18,506	**5,125**	5,218	**5,557**	5,965
Current liabilities	**3,050**	2,978	**7,075**	6,458	**2,589**	2,680	**2,786**	3,210
Non-current liabilities	**2,425**	2,345	**470**	448	**168**	160	**1,089**	1,030
Total equity	**8,319**	8,114	**28,586**	25,180	**5,142**	4,345	**2,711**	2,958

	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue	**6,894**	6,324	**14,316**	9,677	**3,567**	2,697	**4,146**	4,019
Expenses	**6,339**	5,249	**10,585**	8,114	**2,227**	2,146	**3,679**	3,120
Profit and total comprehensive income for the year	**419**	886	**3,349**	1,364	**1,054**	475	**358**	672
Dividend paid to non-controlling interests	**105**	245	**–**	–	**142**	193	**296**	365
Net cash inflow from operating activities	**517**	1,444	**3,008**	4,199	**1,939**	650	**901**	958
Net cash (outflow) inflow from investing activities	**(959)**	1,401	**(2,832)**	(4,045)	**(95)**	(184)	**197**	(348)
Net cash inflow (outflow) from financing activities	**436**	(47)	**(20)**	(42)	**(532)**	(363)	**(1,098)**	(610)
Net cash (outflow) inflow	**(6)**	2,798	**156**	112	**1,312**	103	**–**	–

43. SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

	Dingzhou Power		Shenhua Sichuan Energy Co., Ltd.		Shuohuang Railway Development Co., Ltd.		Shenhua Zhonghai Shipping Co., Ltd.	
	31 December 2017 RMB million	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million	**31 December 2017 RMB million**	31 December 2016 RMB million
Current assets	**1,240**	1,060	**774**	1,031	**10,283**	8,210	**1,288**	969
Non-current assets	**5,048**	5,429	**6,111**	5,349	**30,819**	29,387	**6,634**	7,125
Current liabilities	**2,503**	2,276	**1,827**	1,130	**7,439**	5,507	**1,538**	1,376
Non-current liabilities	**769**	973	**2,151**	2,087	**1,892**	2,242	**48**	718
Total equity	**3,016**	3,240	**2,907**	3,163	**31,771**	29,848	**6,336**	6,000

	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Revenue	**4,104**	3,873	**1,055**	1,106	**19,070**	17,250	**3,247**	2,112
Expenses	**3,352**	2,741	**1,281**	1,162	**8,940**	8,737	**2,641**	1,928
Profit (loss) and total comprehensive income for the year	**557**	845	**(255)**	(74)	**7,587**	6,477	**463**	143
Dividend paid to non-controlling interests	**465**	529	**–**	2	**2,759**	1,435	**62**	–
Net cash inflow (outflow) from operating activities	**766**	1,438	**(256)**	127	**7,481**	8,419	**752**	372
Net cash inflow (outflow) from investing activities	**65**	(610)	**(658)**	(656)	**(2,665)**	(1,935)	**(26)**	(85)
Net cash (outflow) inflow from financing activities	**(831)**	(828)	**431**	531	**(4,588)**	(6,460)	**(757)**	(273)
Net cash (outflow) inflow	**–**	–	**(483)**	2	**228**	24	**(31)**	14

43. SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

	Guangdong Guohua Yuedian Taishan Power Co., Ltd.		Shenhua Huanghua Harbour Administration Co., Ltd.		Shenhua Guohua International Power Co., Ltd.		Zhejiang Guohua Zheneng Power Generation Co., Ltd.	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016	**31 December 2017**	31 December 2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Current assets	**936**	1,439	**2,013**	1,419	**2,545**	3,260	**1,826**	1,340
Non-current assets	**10,972**	11,332	**13,722**	14,538	**15,909**	16,974	**9,687**	10,276
Current liabilities	**2,889**	5,147	**2,621**	1,304	**5,647**	7,932	**3,223**	3,585
Non-current liabilities	**1,301**	–	**2,830**	5,099	**2,844**	1,841	**2,945**	2,501
Total equity	**7,718**	7,624	**10,284**	9,554	**9,963**	10,461	**5,345**	5,530

	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue	**6,849**	6,310	**4,519**	3,964	**10,758**	9,794	**7,310**	6,476
Expenses	**6,068**	4,963	**2,604**	2,015	**10,566**	9,045	**6,292**	5,135
Profit and total comprehensive income for the year	**571**	1,031	**1,685**	1,223	**84**	490	**746**	1,034
Dividend paid to non-controlling interests	**–**	306	**288**	118	**137**	460	**372**	583
Net cash inflow from operating activities	**1,947**	1,646	**1,968**	1,962	**2,390**	2,546	**1,736**	1,312
Net cash (outflow) inflow from investing activities	**(124)**	(155)	**156**	(424)	**(523)**	(312)	**(642)**	(130)
Net cash outflow from financing activities	**(1,822)**	(1,488)	**(2,011)**	(1,416)	**(2,221)**	(1,890)	**(1,096)**	(2,712)
Net cash inflow (outflow)	**1**	3	**113**	122	**(354)**	344	**(2)**	(1,530)

44. INFORMATION ABOUT THE FINANCIAL POSITION AND RESERVES OF THE COMPANY

	NOTE	**31 December 2017** ***RMB million***	31 December 2016 *RMB million*
Non-current assets			
Property, plant and equipment		**48,713**	52,469
Construction in progress		**3,067**	3,446
Intangible assets		**572**	1,712
Investments in subsidiaries		**139,138**	132,569
Investments in associates		**5,283**	1,065
Available-for-sale investments		**569**	1,647
Other non-current assets		**33,829**	36,853
Lease prepayments		**3,074**	3,167
Deferred tax assets		**240**	152
Total non-current assets		**234,485**	233,080
Current assets			
Inventories		**3,167**	3,591
Accounts and bills receivables		**11,977**	22,559
Prepaid expenses and other current assets		**44,481**	84,782
Restricted bank deposits		**938**	335
Time deposits with original maturity over three months		**4,650**	27,750
Cash and cash equivalents		**59,154**	19,276
Total current assets		**124,367**	158,293
Current liabilities			
Borrowings		**7,271**	5,263
Accounts and bills payable		**6,476**	6,251
Accrued expenses and other payables		**73,778**	63,875
Current portion of long-term liabilities		**5,196**	20,227
Income tax payable		**2,867**	1,570
Total current liabilities		**95,588**	97,186
Net current assets		**28,779**	61,107
Total assets less current liabilities		**263,264**	294,187

44. INFORMATION ABOUT THE FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	NOTE	31 December 2017 RMB million	31 December 2016 RMB million
Non-current liabilities			
Borrowings		**4,744**	3,460
Medium-term notes		**–**	4,985
Long-term liabilities		**720**	872
Accrued reclamation obligations		**1,285**	1,224
Total non-current liabilities		**6,749**	10,541
Net assets		**256,515**	283,646
Equity			
Share capital	35	**19,890**	19,890
Reserves		**236,625**	263,756
Total equity		**256,515**	283,646

44. INFORMATION ABOUT THE FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	Share premium RMB million	Statutory reserves RMB million	Other comprehensive income RMB million	Capital and other reserves RMB million	Retained earnings RMB million	Total RMB million
At 1 January 2016	85,001	15,987	–	1,681	110,455	213,124
Profit for the year	–	–	–	–	56,967	56,967
Other comprehensive income	–	–	30	–	–	30
Total comprehensive income for the year	–	–	30	–	56,967	56,997
Dividend declared *(Note 13)*	–	–	–	–	(6,365)	(6,365)
Appropriation of maintenance and production funds	–	2,699	–	–	(2,699)	–
Utilisation of maintenance and production funds	–	(398)	–	–	398	–
At 31 December 2016	85,001	18,288	30	1,681	158,756	263,756
Profit for the year	**–**	**–**	**–**	**–**	**31,966**	**31,966**
Other comprehensive expense	**–**	**–**	**(25)**	**–**	**–**	**(25)**
Total comprehensive (expense) income for the year	**–**	**–**	**(25)**	**–**	**31,966**	**31,941**
Dividend declared *(Note 13)*	**–**	**–**	**–**	**–**	**(59,072)**	**(59,072)**
Appropriation of maintenance and production funds	**–**	**3,891**	**–**	**–**	**(3,891)**	**–**
Utilisation of maintenance and production funds	**–**	**(1,183)**	**–**	**–**	**1,183**	**–**
At 31 December 2017	**85,001**	**20,996**	**5**	**1,681**	**128,942**	**236,625**

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity holders of the Company is the lower of the amount determined in accordance with the China Accounting Standards and the amount determined in accordance with IFRSs after the appropriation to reserves as detailed in Note (iii) to the consolidated statement of changes in equity.

At 31 December 2017, the aggregate amount of retained earnings determined in accordance with the China Accounting Standards available for distribution to equity holders of the Company was RMB124,576 million (2016: RMB153,846 million).

Section XIV Documents Available for Inspection

Documents Available for Inspection	The annual report for the year 2017 signed by the Chairman The financial statements signed and sealed by the Chairman, the Chief Financial Officer and the General Manager of the Financial Department The original copies of all documents sealed by the accounting firm and signed and sealed by the certified public accountant The original copies of all documents and announcements of the Company publicly disclosed in the newspapers designated by the CSRC during the reporting period The annual report for the year 2017 published on the Shanghai Stock Exchange and the Hong Kong Stock Exchange

Ling Wen, Chairman

Approved by the Board for submission on: 23 March 2018

Section XV Signing Page for Opinions

Pursuant to Article 68 of the Securities Law of the People's Republic of China and Article 14 of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – The Contents and Formats of Annual Report (Revised edition 2017) of the CSRC, having fully understood and reviewed the 2017 Annual Report of the Company, all directors, supervisors and senior management are of the opinion that information disclosed in the 2017 Annual Report of the Company is true, accurate and complete. We hereby guarantee that the information stated in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the content thereof.

Directors

(Ling Wen)

(Han Jianguo)

(Li Dong)

(Zhao Jibin)

(Tam Wai Chu, Maria)

(Jiang Bo)

(Zhong Yingjie, Christina)

Supervisors

(Zhai Richeng)

(Zhou Dayu)

(Shen Lin)

Senior Management

(Li Dong)	(Wang Jinli)	(Wang Shumin)
(Zhang Zifei)	(Zhang Jiming)	(Lv Zhiren)
(Jia Jinzhong)	(Huang Qing)	(Zhang Kehui)

China Shenhua Energy Company Limited
23 March 2018

Section XVI Summary of Major Financial Information for the Recent Five Years

The finance information below is from the financial statement prepared by the Group in accordance with International Financial Reporting Standards:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December				
	2013 *RMB Million*	2014 *RMB Million*	2015 *RMB Million*	2016 *RMB Million*	**2017** ***RMB Million***
Revenue	289,230	253,081	177,069	183,127	**248,746**
Cost of sales	(206,359)	(178,109)	(123,341)	(124,843)	**(160,460)**
Gross profit	82,871	74,972	53,728	58,284	**88,286**
Selling expenses	(1,031)	(794)	(584)	(610)	**(612)**
General and administrative expenses	(9,285)	(8,835)	(9,714)	(8,423)	**(9,456)**
Other gains and losses	(888)	(770)	(5,856)	(3,078)	**(1,880)**
Other income	534	939	1,659	1,379	**894**
Other expenses	(382)	(419)	(626)	(1,511)	**(1,262)**
Interest income	758	803	608	723	**1,205**
Finance costs	(3,321)	(4,459)	(5,123)	(5,748)	**(4,416)**
Share of results of associates	588	410	428	237	**534**
Profit before income tax	69,844	61,847	34,520	41,253	**73,293**
Income tax	(13,912)	(12,784)	(9,561)	(9,283)	**(16,155)**
Profit for the year	55,932	49,063	24,959	31,970	**57,138**
Profit for the year attributable to:					
Equity holders of the Company	45,706	39,301	17,649	24,910	**47,795**
Non-controlling interests	10,226	9,762	7,310	7,060	**9,343**
Earnings per share *(RMB)*					
– Basic	2.298	1.976	0.887	1.252	**2.403**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2013 *RMB Million*	2014 *RMB Million*	2015 *RMB Million*	2016 *RMB Million*	**2017** ***RMB Million***
Total non-current assets	402,759	431,226	438,755	443,266	**438,958**
Total current assets	122,567	119,646	121,036	133,463	**132,644**
Total assets	525,326	550,872	559,791	576,729	**571,602**
Total current liabilities	134,001	110,778	101,487	112,185	**115,905**
Total non-current liabilities	53,115	74,524	94,383	79,575	**76,592**
Total liabilities	187,116	185,302	195,870	191,760	**192,497**
Net assets	338,210	365,570	363,921	384,969	**379,105**
Equity attributable to equity holders of the Company	280,113	300,698	298,068	316,975	**305,541**
Non-controlling interests	58,097	64,872	65,853	67,994	**73,564**
Total equity	338,210	365,570	363,921	384,969	**379,105**

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