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

2018 Annual Report

Smart Coal Mine

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 18th meeting of the fourth session of the Board of the Company. Nine out of ten eligible directors attended the meeting in person. Gao Song, a director, asked for leave due to business appointment, and appointed Mi Shuhua, a director, to act as his proxy and vote on behalf of him at the meeting.

III. Deloitte Touche Tohmatsu has issued a standard unqualified independent auditor's report to the Company under the Hong Kong Standards on Auditing, in connection with the Company's 2018 financial statements prepared under IFRSs.

IV. Ling Wen, Chairman of the Company, Xu Shancheng, Chief Financial Officer, and Ban Jun, person-in-charge of the accounting department, 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 RMB0.88 per share (inclusive of tax) or RMB17,503 million (inclusive of tax) for the year 2018 based on the total share capital of 19,889,620,455 shares of the Company as at 31 December 2018. 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 2019. In addition, investors please note that the Company has disclosed risks including market competition, industrial policies, increase in cost, environmental protection and production safety, etc. in the section headed "Directors' Report".

Contents

Section I Definitions

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

China Shenhua/the Company	China Shenhua Energy Company Limited
The Group	The Company and its subsidiaries
China Energy/ Shenhua Group Corporation	China Energy Investment Corporation Limited (國家能源投資集團有限責任公司), the new name of Shenhua Group Corporation Limited (神華集團有限責任公司)
China Energy Group/ Shenhua Group	China Energy and its subsidiaries (excluding the Group)
China Guodian	China Guodian Group Co., Ltd. (中國國電集團有限公司)
Guodian Group	China Guodian and its subsidiaries
GD Power	GD Power Development Co., Ltd.
Shendong Coal Group	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.
Shenhua Trading Group	Shenhua Trading Group Limited
Huanghua Harbour Administration Company	Shenhua Huanghua Harbour Administration Co., Ltd.
Railway Transportation Company	Shenhua Railway Transportation 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.

Shenwan Energy	Shenwan Energy Company Limited
Fujian Energy	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.
Fuping Thermal Power	Fuping Thermal Power Plant of Shenhua Shendong Power Co., Ltd.
Lujiang Power Plant	Shenwan Hefei Lujiang Power Generation 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	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 Board

Articles of Association	Articles of Association of China Shenhua Energy Company Limited
EBITDA	profit for the year + net finance 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
RMB	Renminbi unless otherwise specified

Section II Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

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

II. CONTACTS AND CONTACT DETAILS

	Secretary to the Board	**Representative of Securities Affairs**
Name	Huang Qing	Sun Xiaoling
Address	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)
Tel	(8610) 5813 3399	(8610) 5813 3355
Fax	(8610) 5813 1804/1814	(8610) 5813 1804/1814
E-mail	1088@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	Chen Wenlong, 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	Yam Siu Man

		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	**2018**	2017	Increase/ decrease in 2018 as compared with 2017 %
Revenue	RMB million	**264,101**	248,746	6.2
Profit for the year	RMB million	**54,164**	57,138	(5.2)
Profit for the year attributable to equity holders of the Company	RMB million	**44,137**	47,795	(7.7)
Basic earnings per share	RMB/share	**2.219**	2.403	(7.7)
Net cash generated from operating activities	RMB million	**88,248**	95,152	(7.3)
Net cash generated from operating activities excluding the effect from Shenhua Finance Company	RMB million	**77,588**	87,931	(11.8)

	Unit	**At the end of 2018**	At the end of 2017	Increase/ decrease at the end of 2018 as compared with the end of 2017 %
Total assets	RMB million	**591,626**	571,602	3.5
Total liabilities	RMB million	**182,789**	192,497	(5.0)
Total equity	RMB million	**408,837**	379,105	7.8
Equity attributable to equity holders of the Company	RMB million	**331,693**	305,541	8.6
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	
	2018	2017	**At the end of 2018**	At the end of 2017
Under China Accounting Standards for Business Enterprises	**43,867**	45,037	**327,763**	301,487
Adjustments for:				
Simple production maintenance, safety production and other related expenditure	**1,665**	2,758	**3,930**	4,054
The separation and transfer cost of "Special payables for water/power/gas supply and property management"	**(1,395)**	–	**–**	–
Under International Financial Reporting Standards	**44,137**	47,795	**331,693**	305,541

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

Explanation on the adjustment to the separation and transfer cost of "Special payables for water/power/gas supply and property management": In accordance with the Notice of the Office of the State Council on the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance Regarding the Guidelines Related to the Separation and Transfer of "Water/Power/Gas Supply and Property Management" in the Employee Living Areas of the State-owned Enterprises (Guo Ban Fa 2016 No. 45) (《國務院辦公廳轉發國務院國資委、財政部關於國有企業職工家屬區「三供一業」分離移交工作指導意見的通知》(國辦發201645號)), the Group separated its functions of water, power and heat (gas) supply and property management in the employee living areas of the Group and transferred to a professional enterprise or institution for socialized management. In 2018, the expenses arising from the separation and transfer of "water/power/gas supply and property management" of the Group amounted to RMB1,831 million, among which, RMB1,395 million was attributable to equity holders of the Company. In accordance with the regulations of the relevant authorities of the Chinese government, the transferred assets in relation to the "water/power/gas supply and property management" and certain expenses in relation to the transfer shall be offset against the equity. While under the IFRSs, the transferred assets and related expenses shall be recognised as current profits and losses.

IX. MAJOR FINANCIAL DATA OF EACH QUARTER OF 2018

Unit: RMB million

	First quarter (January – March)	Second quarter (April – June)	Third quarter (July – September)	Fourth quarter (October – December)
Revenue	62,979	64,401	66,704	70,017
Profit for the period attributable to equity holders of the Company	12,203	12,317	12,687	6,930
Net cash generated from operating activities	11,810	20,127	35,885	20,426

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

☐ Applicable ✔ Not Applicable

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 460.9 million tonnes and commercial coal production volume reaching 296.6 million tonnes in 2018. The Company possesses high quality coal resources in Shendong Mines, Zhunge'er Mines, Shengli Mines and Baorixile Mines, etc. On 31 December 2018, the Company had recoverable coal reserves of 14.95 billion tonnes under the PRC Standard; the marketable coal reserve of 8.26 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 61,849MW by the end of 2018, with a total power output dispatch reaching 267.59 billion kWh in 2018. 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 2018 reached 283.9 billion tonne km. The Group also controls and operates a number of ports and docks (approximately 270 million tonnes/year vessel loading capability in aggregate), such as Huanghua Port, possesses the shipping transportation team comprising its own vessels with approximately 2.18 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 2018, there was no material change in the major assets of the Group.

As of 31 December 2018, the Group's total assets amounted to RMB591,626 million, representing an increase of 3.5% as compared with that at the end of last year, and the equity attributable to equity holders of the Company amounted to RMB331,693 million, representing an increase of 8.6% 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 RMB25,024 million, representing 4.2% to total assets, which are mainly composed of the coal mine and power generation assets in Australia and Indonesia, and assets from U.S. dollar-denominated bonds issued in Hong Kong, the PRC.

On 31 January 2019, the Company and Guodian Power completed the settlement of establishing a joint venture company, in which the equity interests and assets of the relevant coal-fired power companies were held by them respectively. The power generation assets of the Group decreased and the interests in associates increased accordingly. For details, please refer to Section V "Subsequent Events" of this report.

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The core competitiveness of the Group is mainly:

(I) **Unique operation and profitability model:** The Group has a large and efficient operation of coal and power generation business, and possesses a large-scale integrated transportation network consisting of railways, ports and ships, forming a core competitive advantage of integrated development of coal, power, transportation and coal-to-chemical industry, one-stop operation of production, transportation and sales, in-depth cooperation and effective synergy among various industrial sectors.

In 2018, the Company further promoted the in-depth supply-side structural reform, participated in the establishment of power generation companies, strengthened resource organization and transportation management, and fully developed its advantages of coal-power-transportation synergic effect and unified operation, resulting that the overall competitiveness continued to strengthen.

(II) **Coal reserve:** The Group possesses an abundant pool of high-quality coal resources which are suitable for modern high-output and high-efficient mining. As of the end of 2018, among the coal mining rights possessed and controlled by the Group, the recoverable coal reserves are 14.95 billion tonnes under the PRC Standard; the marketable coal reserves are 8.26 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, transportation and conversion in energy sector.

In 2018, 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 green 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 2018, the Company focused on promoting the construction of digital mines and ultra-low emission transformation of coal-fired generators. During the reporting period, China Shenhua was granted a total of 581 patents, in which 113 patents were invention patents.

Section IV Chairman's Statement

Ling Wen
Chairman

Dear Shareholders,

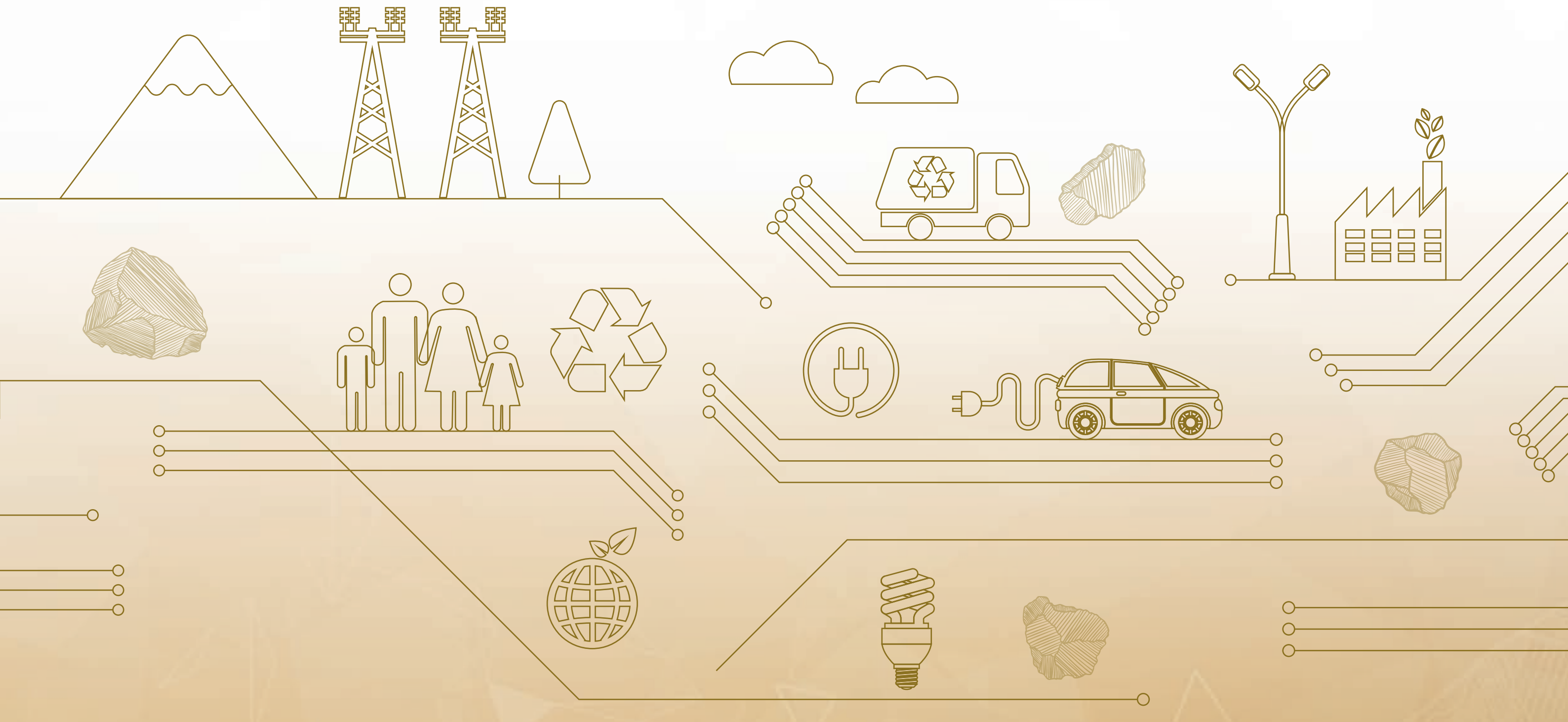
On behalf of the Board, I am delighted to present the 2018 annual report of China Shenhua and to report on the Company's performance for the period to all shareholders.

2018 was the first year of full implementation of the guiding principles of the 19th CPC National Congress. Guided by the Thought on Socialism with Chinese Characteristics for a New Era proposed by Xi Jinping, the Chinese government have upheld the underlying principle of pursuing progress while ensuring stability, responded effectively to the changes in the external environment in accordance with the requirement of high quality development, and advanced in-depth supply-side structural reform, through which sustained and sound development of economy, and social stability were maintained. The supply and demand in the national energy market continued to be generally loose, while the supply and demand in the coal market tended to be balanced, and thermal power generation achieved a significant recovery year-on-year.

China Shenhua adhered to clean development, gave full play to its advantage of integration to strengthen operation management, expand market, enhance quality and improve efficiency, resulting that the production and operation of the Company maintained at a high level. As calculated by the consolidated operating profit before amortisation under the IFRSs, the Company recorded RMB43.262 billion for coal business, RMB20.743 billion for transportation business and RMB12.720 billion for power business in 2018 and each of the said businesses accounted for 56%, 27% and 16%, 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 2018, the Company recorded revenue of RMB264.101 billion, representing a year-on-year increase of 6.2%. The Company recorded profit before tax of RMB70.141 billion, profit for the year attributable to equity holders of the Company of RMB44.137 billion with basic earnings per share of RMB2.219, representing a year-on-year decrease of 4.3% and 7.7%, respectively.

As at 31 December 2018, the total market capitalisation of China Shenhua reached USD50.6 billion, ranking fifth, first among Chinese enterprises, in the 2018 Top 250 Global Energy Corporations published by PLATTS.



2018: STRENGTHENED SYNERGY OF COAL-FIRED POWER AND ADVANTAGE OF INTEGRATION TO ACHIEVE OUTSTANDING PERFORMANCE

Strong Root and Elevated Spiritual Level Guided by Party Building

Adhering to the Thought on Socialism with Chinese Characteristics for a New Era proposed by Xi Jinping and the Spirit of the 19th CPC National Congress, the Company implemented thoroughly the requirements of China Energy on party building, promoted every aspect of party building including persistence in anti-corruption, as well as simultaneous deployment, research, implementation and assessment of business and Party building; encouraged employees to make achievements in their positions by promoting "formation of socialism by construction", organized an ethics lecture on "a pillar of a great nation", the Party theme day of "new era, new mission and new responsibilities" and the "locomotive Pacesetter" labour competition in the transportation industry and other featured Party building activities, which promoted the continuous enhancement on employees' spiritual state and corporate governance.

High Efficiency and Synergy, Made Further Success

By leveraging the effect brought by the re-organisation and integration of China Energy Group, the Company continued to improve the level of integrated coal industry chain, with major indicators of production and operation maintaining at a high level.

Affected by decrease in production of certain coal mines, **coal segment**, however, optimized the production organisation in accordance with laws and regulations, resulting that the output of commercial coal remained relatively stable and the level of operation management was steadily improved. The production of commercial coal during the year amounted to 296.6 million tonnes, representing a year-on-year increase of 0.4%. 18 out of 19 underground coal mines of the Group were listed in the "2018 Top 100 Chinese Coal Enterprises with Scientific Production Capacity" (2018中國煤炭企業科學產能百強), seven coal mines of which were included in Top eight, occupying top three positions.

In response to national initiatives, the Company took the lead in signing a three-year long-term thermal coal purchase agreement, increased and guaranteed the supply of coal in the northeast and other regions, fully playing the role of an energy "stabiliser" and "ballast". Through scientific research and judgment of the market situation, careful formulation of marketing strategies and strengthening of organisation of coal procured externally, the Company realized maximum benefits. The sales volume of coal amounted to 460.9 million tonnes throughout the year, representing a year-on-year increase of 3.9%, of which the sales volume of seaborne coal amounted to 270.0 million tonnes, representing a year-on-year increase of 4.6%.

In terms of the **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 improve the reliability management of equipment to increase the volume of power generation. In 2018, the gross power generation reached 285.32 billion kWh and the total power output dispatch reached 267.59 billion kWh, representing a year-on-year increase of 8.5% and 8.7%, respectively. The average utilisation hours of coal-fired generating units were 4,877 hours, surpassing the national average utilisation hours of thermal power equipment (4,361 hours) by 516 hours. 19 generating units won the National Thermal Power Efficiency Competition (全國火電能效對標競賽), and five generating units won the National Thermal Power Operation Reliability Competition (全國火電運行可靠性對標競賽), with a proportion significantly higher than that of the total installed capacity of coal-fired generating units of the Company in the thermal power installed capacity of the state (5.4%).

In terms of the **transportation segment**, the Company strengthened the connection and management between the upstream and the downstream, commenced operation of long-route trains, increased the routes of 10,000-tonne trains and 20,000-tonne trains, and enhanced the "quasi-liner shipping" operation mechanism, through which transportation efficiency was significantly improved. In 2018, the Company completed 283.9 billion tonne km of turnover volume of self-owned railway, representing a year-on-year increase of 4%, which recorded historical high; and 89.9 billion tonne nm of shipping volume, representing a year-on-year increase of 11.8%.

The development of "macroscopic logistic" maintained a positive momentum. In 2018, the transportation volume of non-coal railway amounted to 15.48 million tonnes. The turnover of railway transportation services provided to external customers amounted to 30.7 billion tonne km, representing a year-on-year growth of 4.4%, which generated revenue of RMB5,877 million, representing a year-on-year increase of 4.7%.

In terms of **coal chemical segment**, the Company continued to strengthen production organisation and process management to improve production efficiency, and optimise production and operation system to improve the level of long-term operation of equipment; kept abreast of the market conditions, and expanded sales channels to enhance earnings. The sales volume of coal-to-olefins products reached 613.1 thousand tonnes in 2018, representing a year-on-year decrease of 3.2%.

Innovation-driven, Safe Development

The Company strived to drive and stimulate new development momentum of the Company with technological innovation, and continuously improve the level of high-quality development. In 2018, the Company successfully carried out the trial production of the world's first "intelligent 8.8-meter ultra-mining height completed set equipment" for fully mechanized coal mining at Shendong Shangwan Mine; the first set of ultra-pure water hydraulic pressure support system in the country operated smoothly at Shendong Jinjie Mine; the "key technology of moving block system of heavy-haul railways" was successfully applied in the operation of Shuohuang Railway; and the automatic charged passing phase insulators for Shenshuo Railway was pioneering in the field in the world. Throughout the year, the Company obtained a total of 34 science and technology awards at provincial and ministerial level, including nine first awards; and was granted 581 patents, including 113 invention patents.

The Company proactively pushed forward construction of mechanisation, automation, informationisation and intellectualisation, accompanied by the promotion of labor reduction and efficiency enhancement, and development in a safe manner. By constantly strengthening the implementation of safety and environmental protection responsibility, and promoting the "double prevention and control", being risk prevention and control and potential risk rectification, the standardisation construction of production safety and establishment of standard work flows of different positions were effectively promoted. In 2018, the fatality rate per million tonne of raw coal output was 0.0126, maintaining its leading position worldwide in production safety. The transportation segment has achieved safe production for 1,052 consecutive days, while 18 coal mines had a safe production cycle of over 1,000 days, and six coal mines and underground service units achieved safe production for 10 consecutive years.

Exercised Responsibility, Overcame Difficulties with Joint Efforts

In terms of the prevention and resolution of material risks, the Company strictly strengthened investment management and control, with the annual investment controlled at RMB23.21 billion throughout the year. By advancing "lowered leverage and reduced liability", the Company recorded the gearing ratio of 30.9%, representing a decrease of 2.8 percentage points as compared to that at the beginning of the year. With the purpose of advancing in-depth supply-side structural reform, Beidian Shengli open pit mine implemented production capacity replacement by 8 million tonnes per year, six quality coal-fired generating units, including Lujiang Power Plant, were put into commercial operation, while the high-standard construction of Jinjie Energy Plant Phase III Project was commenced, and Shenmu Power was shut down.

In terms of targeted poverty alleviation, the Company increased investment in poverty alleviation with focus on ecology, education and industry to cultivate and stimulate the endogenous power of the targeted subjects for assistance. In 2018, the Company invested RMB54 million poverty alleviation funds in three targeted counties, and carried out 22 assistance projects of all kinds, which helped 1,186 impoverished people get removed from administrative record for poverty registering, and helped 70 impoverished people transfer employment. The Company also invested approximately RMB43 million in the poverty alleviation on education and medical care through China Energy Public Welfare Foundation. 13 subsidiaries, including Zhunneng Group, proactively invested poverty alleviation funds to provide targeted assistance for impoverished villages in the places where the companies are located.

In terms of pollution prevention and treatment, the Company continued to carry out ecological restoration and environmental governance in the coal segment, making fruitful achievements in building energy conservation and environmental protection capability. As for the power segment, the "ultra-low emission" renovation of coal-fired generators with total capacity of 7,810MW was completed, and all new coal-fired power projects were in line with ultra-low emission indicators, resulting in the installed capacity of "ultra-low emission" coal-fired generators accounting for 89.9% of the total installed capacity of coal-fired power generators of the Company. In 2018, the total emissions of sulfur dioxide, nitrogen oxide and chemical oxygen demand recorded year-on-year decrease, which continued to secure a leading position in the country. As for the transportation segment, the environmental protection renovation project of the open-air platforms of main railways was carried forward in an orderly manner; Huanghua Harbour successfully dealt with the long-existing problems in the coal port industry, such as dust pollution and coal-containing sewage treatment, becoming a benchmarking enterprise for green development of coal ports nationwide.

2019: CONCENTRATING EFFORTS ON "CONSOLIDATION, ENHANCEMENT, IMPROVEMENT, TRANSPARENCY", BUILDING ITSELF INTO THE WORLD'S FIRST-CLASS COMPREHENSIVE ENERGY COMPANY

In 2019, economic situations will remain stable amid changes and downside. The Chinese government will continue to uphold the underlying principle of pursuing progress while ensuring stability and strive to promote high-quality development, keeping the economy running within a reasonable range.

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 427 million tonnes, the power output dispatch will be 143.1 billion kWh, the revenue will be RMB221.2 billion and the cost of sales will be RMB144.1 billion, selling, general and administrative expenses and net finance costs will be RMB13.5 billion.

Priorities will include the following:

Adhering to and Strengthening the Overall Leadership of the Communist Party of China

The Company will carry out in-depth implementation of the Thought on Socialism with Chinese Characteristics for a New Era proposed by Xi Jinping and the main idea of the important speech made by General Secretary Xi Jinping at the Work Conference of the Party Construction of State Enterprises Nationwide to ensure the Party building being institutionalised, normalised and a regular practice, give full play to the roles of Party organisations and Party members at all levels, promote the in-depth integration of Party building and production and operation, and always maintain the right direction for reform and development.

Setting High Standard and High Starting Point, Planning the Path for the Company's Development

With the general objective of "building the flagship company of China Energy Group and the world-class energy enterprise with global competitiveness", we will further deeply study new strategic positioning of the Company, improve the strategic management system, focus on the main business of the Company at a horizontal level, vertically extend the operation of the integrated industry chain, and explore the path for optimising industrial structure and strengthening industrial synergy and integration, building the "century-vintage store" in the energy industry.

Optimising the Production, Transportation and Marketing Organisation to Improve the Quality of the Company's Development

In terms of the coal segment, emphasis will be put on improving quality, increasing coal variety and building brand, promoting clean and efficient production of coal, constructing intelligent and green mines, ensuring the acquisition and perpetuation of resources in core areas, increasing output of open-pit mines, putting more efforts on marketing and stabilising energy supply. In terms of the power segment, the Company will adhere to steady development, promote the coal-power cooperation and enhance the quality of power generation, so as to strengthen market competitiveness and ensure that the average utilisation hours of the generating units continue to secure a leading position in the industry. In terms of the transportation segment, the Company will optimise the network layout, strengthen the centralised transportation capability of railways, promote the dispersed transportation capability of ports and construct safe, intelligent, efficient and environmental-friendly transportation channels. In terms of the coal chemical segment, efforts will be concentrated on technology research and development and process integration to ensure safe operation.

Safe and Healthy Operation, Fulfilling Social Responsibility

With focus on management of key fields, main sections and weak spots, safe production will continue to maintain a leading position worldwide. The Company will continue to strengthen the safety control of capital chain, put more efforts on controlling the growth of unit production cost of self-produced coal, and reduce the controllable costs of power generation and transportation businesses; strictly control investment projects to advance the construction of projects such as Huangda Railway and Jawa-7 Coal-fired Power; enhance the implementation of targeted poverty alleviation projects and actively explore new work methods such as poverty alleviation through science and technology; adhere to green and low-carbon development, safeguarding the bottom line of ecological protection; and establish an information system for monitoring occupational health to ensure full coverage of occupational health examination.

Promoting Innovation-driven Development Strategy, Strengthening Independent Innovation Capability

The Company will improve the technological innovation system, strengthen the construction of scientific research facilities, and cultivate and introduce higher level of creative talents; put more efforts to cultivate technological innovation culture, and promote the creation, protection and application of intellectual property rights; strengthen the cooperation among "production, study, research and practice", carry out scientific research on the green development of the coal industry, intelligent power generation, green and smart railways and ports, and high-end coal chemical products to keep abreast of the core, critical and cutting-edge technologies, so as to demonstrate the leading of a number of key projects, and promote innovation and development of the Company.

2019 is the 70th anniversary of the founding of the People's Republic of China and will be a crucial year for the country to build a moderately prosperous society in all respects. 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

22 March 2019

Section V Directors' Report

Overview of China Shenhua's Operating Results for the Year of 2018

Table 1 Business Targets for 2019

		Target for 2019	Actual amount in 2018	Change %
Commercial coal production	100 million tonnes	2.9	2.966	(2.2)
Coal sales	100 million tonnes	4.27	4.609	(7.4)
Power output dispatch	billion kWh	143.1	267.59	(46.5)
Revenue	RMB100 million	2,212	2,641.01	(16.2)
Cost of sales	RMB100 million	1,441	1,736.77	(17.0)
Selling, general and administrative expenses (including R&D) and net finance costs	RMB100 million	135	149.75	(9.8)
Change in unit production costs of self-produced coal		year-on-year increase of no more than 5%	Year-on-year increase of 7.6%	

Table 2 Financial Indicators

		2018	2017	Change %
Revenue	RMB million	264,101	248,746	6.2
Profit for the year	RMB million	54,164	57,138	(5.2)
EBITDA	RMB million	97,363	101,310	(3.9)
Profit for the year attributable to equity holders of the Company	RMB million	44,137	47,795	(7.7)
Basic earnings per share	RMB/share	2.219	2.403	(7.7)
Net cash generated from operating activities	RMB million	88,248	95,152	(7.3)
Net cash generated from operating activities excluding Shenhua Finance Company	RMB million	77,588	87,931	(11.8)

Table 3 Results of Each Segment

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million
Revenue from external customers	160,845	155,370	88,176	79,246	5,877	5,615	733	788	837	698	5,840	5,681	1,793	1,348	–	–	264,101	248,746
Inter-segment revenue	44,346	40,548	276	265	33,272	31,971	5,391	4,929	3,252	2,549	–	–	970	1,040	(87,507)	(81,302)	–	–
Sub-total of segment revenue	205,191	195,918	88,452	79,511	39,149	37,586	6,124	5,717	4,089	3,247	5,840	5,681	2,763	2,388	(87,507)	(81,302)	264,101	248,746
Segment cost of sales	(156,143)	(143,461)	(72,408)	(68,388)	(19,915)	(18,632)	(3,511)	(2,880)	(3,232)	(2,472)	(4,901)	(4,968)	(30)	(49)	86,463	80,390	(173,677)	(160,460)
Segment profit/(loss) from operations	43,262	46,051	12,720	7,399	17,695	17,675	2,325	2,529	723	661	751	560	1,758	1,536	(1,037)	(912)	78,197	75,499
	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million	As at 31 December 2018 RMB million	As at 31 December 2017 RMB million
Segment total assets	228,641	225,672	222,941	215,910	129,353	129,829	23,735	24,211	7,058	7,865	9,821	10,982	416,213	381,056	(446,136)	(423,923)	591,626	571,602
Segment total liabilities	(109,845)	(114,713)	(158,033)	(152,157)	(56,341)	(65,772)	(10,094)	(10,607)	(636)	(1,527)	(1,816)	(3,619)	(191,617)	(169,782)	345,593	325,680	(182,789)	(192,497)

Table 4 Operation Data

		2018	2017	Change %
Commercial coal production	million tonnes	296.6	295.4	0.4
Coal sales	million tonnes	460.9	443.8	3.9
Including: Self-produced coal	million tonnes	300.7	301.0	(0.1)
Purchased coal	million tonnes	160.2	142.8	12.2
Transportation turnover of self-owned railway	billion tonne km	283.9	273.0	4.0
Seaborne coal sales	million tonnes	270.0	258.2	4.6
Shipping volume	million tonnes	103.6	93.0	11.4
Shipment turnover	billion tonne nm	89.9	80.4	11.8
Gross power generation	billion kWh	285.32	262.87	8.5
Total power output dispatch	billion kWh	267.59	246.25	8.7
Polyethylene sales	thousand tonnes	315.4	324.6	(2.8)
Polypropylene sales	thousand tonnes	297.7	308.8	(3.6)

Table 5 Commercial coal production Volume

	2018 million tonnes	2017 million tonnes	Change %
Total production	296.6	295.4	0.4
By mines			
Shendong Mines	195.8	193.3	1.3
Zhunge'er Mines	52.3	55.4	(5.6)
Shengli Mines	18.7	19.2	(2.6)
Baorixile Mines	29.2	25.3	15.4
Baotou Mines	0.6	0.4	50.0
Others	–	1.8	(100.0)
By regions			
Inner Mongolia	196.9	190.6	3.3
Shaanxi	95.7	98.6	(2.9)
Shanxi	4.0	4.4	(9.1)
Overseas	–	1.8	(100.0)

Table 6 Power Business

Power plants	Power grid	Location	Gross power generation 100 million kWh	Total power output dispatch 100 million kWh	Average utilization hours hours	Standard coal consumption for power outpour dispatch g/kWh	Power tariff RMB/mWh	Total installed capacity as at 31 December 2017 MW	Increase/(decrease) in installed capacity for 2018 MW	Total installed capacity as at 31 December 2018 MW	Equity Installed capacity as at 31 December 2018 MW
Zhunge'er Power	North China Power Grid	Inner Mongolia	32.6	29.2	3,392	367	213	960	–	960	554
Guohua Zhunge'er	North China Power Grid	Inner Mongolia	71.4	64.5	5,411	310	236	1,320	–	1,320	639
Guohua Hulunbei'er Power	Northeast Power Grid	Inner Mongolia	60.2	54.3	5,019	321	236	1,200	–	1,200	960
Shendong Power	Northwest/North China/ Shaanxi Provincial Local Power Grid	Inner Mongolia	334.5	306.8	3,723	337	255	8,284	700	8,984	8,726
Cangdong Power	North China Power Grid	Hebei	132.1	126.0	5,244	300	315	2,520	–	2,520	1,285
Sanhe Power	North China Power Grid	Hebei	68.1	63.5	5,119	291	327	1,330	–	1,330	512
Dingzhou Power	North China Power Grid	Hebei	139.2	128.8	5,522	307	320	2,520	–	2,520	1,021
Taishan Power	South China Power Grid	Guangdong	238.9	225.5	4,694	309	354	5,030	60	5,090	4,072
Huizhou Thermal	South China Power Grid	Guangdong	34.2	31.0	5,187	324	358	660	–	660	660
Zheneng Power	East China Power Grid	Zhejiang	223.5	212.3	4,944	299	353	4,490	30	4,520	2,712
Zhoushan Power	East China Power Grid	Zhejiang	47.6	44.3	5,236	331	361	910	–	910	464
Shenwan Energy	East China Power Grid	Anhui	236.6	226.0	5,066	299	322	4,600	1,320	5,920	3,019
Taicang Power	East China Power Grid	Jiangsu	70.7	67.6	5,608	294	309	1,260	–	1,260	630
Chenjiagang Power	East China Power Grid	Jiangsu	68.5	65.5	5,187	284	318	1,320	–	1,320	726
Xuzhou Power	East China Power Grid	Jiangsu	93.0	88.4	4,651	289	340	2,000	–	2,000	2,000
Suizhong Power	Northeast Power Grid	Liaoning	175.7	164.9	4,672	310	309	3,760	–	3,760	1,880
Fujian Energy	East China Power Grid	Fujian	155.5	148.9	5,241	282	341	2,700	100	2,800	1,375
Jinjie Energy	North China Power Grid	Shaanxi	165.4	152.0	6,892	322	267	2,400	–	2,400	1,680
Shenmu Power	Northwest Power Grid	Shaanxi	0.7	0.6	–	377	306	220	(220)	–	–
Shenhua Sichuan Energy (coal-fired power)	Sichuan Power Grid	Sichuan	33.5	30.4	2,659	332	386	1,260	–	1,260	604
Mengjin Power	Central China Power Grid	Henan	50.4	47.5	4,197	307	300	1,200	–	1,200	612
Shouguang Power	North China Power Grid	Shandong	115.2	109.9	5,705	280	339	2,000	20	2,020	1,212
Guohua Ningdong	Zhejiang Power Grid	Ningxia	68.7	64.8	5,202	302	226	1,320	–	1,320	749
Ningdong Power	Northwest Power Grid	Ningxia	27.8	24.6	4,207	363	234	660	–	660	660
Panshan Power	North China Power Grid	Tianjin	51.0	47.7	4,807	312	355	1,060	–	1,060	482
Liuzhou Power	Guangxi Power Grid	Guangxi	19.8	18.6	2,832	321	345	700	–	700	490
Jiujiang Power	Central China Power Grid	Jiangxi	57.1	54.5	2,857	281	354	–	2,000	2,000	2,000
EMM Indonesia	PLN	Indonesia	15.9	13.9	5,302	367	510	300	–	300	210
Total of coal-fired power plants/weighted average			**2,787.8**	**2,612.0**	**4,877**	**308**	**313**	**55,984**	**4,010**	**59,994**	**39,934**
Other power plants											
Beijing Gas-fired Power	North China Power Grid	Beijing	39.2	38.3	4,131	200	589	950	–	950	950
Yuyao Power	East China Power Grid	Zhejiang	19.3	18.8	2,474	232	503	780	–	780	624
Shenhua Sichuan Energy (hydropower)	Sichuan Provincial Local Power Grid	Sichuan	6.9	6.8	5,517	–	222	125	–	125	48
Zhuhai Wind Energy	South China Power Grid	Guangdong	–	–	–	–	–	16	(16)	–	–

Table 7 Cost of Sales of Coal Segment

	2018 Cost RMB million	2018 Volume million tonnes	2018 Unit cost RMB/tonne	2017 Cost RMB million	2017 Volume million tonnes	2017 Unit cost RMB/tonne	Change in unit cost %
Cost of coal purchased	56,321	160.2	351.6	49,950	142.8	349.8	0.5
Production cost of self-produced coal	34,911	300.7	116.1	32,490	301.0	107.9	7.6
Materials, fuel and power	6,922	300.7	23.0	5,380	301.0	17.9	28.5
Personnel expenses	6,389	300.7	21.2	5,673	301.0	18.8	12.8
Repairs and Maintenance	2,661	300.7	8.8	2,668	301.0	8.9	(1.1)
Depreciation and amortization	5,573	300.7	18.5	5,863	301.0	19.5	(5.1)
Others	13,366	300.7	44.6	12,906	301.0	42.8	4.2
Cost of coal transportation	52,881			49,726			
Other operating costs	4,007			3,480			
Taxes and surcharges	8,023			7,815			
Total cost of sales	**156,143**			143,461			

Table 8 Cost of Sales of Power Segment

	2018 Cost RMB million	2018 Power output dispatch 100 million kWh	2018 Unit cost RMB/mWh	2017 Cost RMB million	2017 Power output dispatch 100 million kWh	2017 Unit cost RMB/mWh	Change in unit cost %
Cost of power output dispatch	70,652	2,675.9	264.0	66,704	2,462.5	270.9	(2.5)
Materials, fuel and power	53,192	2,675.9	198.8	48,355	2,462.5	196.4	1.2
Personnel expenses	4,522	2,675.9	16.9	4,000	2,462.5	16.2	4.3
Repairs and Maintenance	2,730	2,675.9	10.2	2,814	2,462.5	11.4	(10.5)
Depreciation and amortization	8,139	2,675.9	30.4	9,352	2,462.5	38.0	(20.0)
Others	2,069	2,675.9	7.7	2,183	2,462.5	8.9	(13.5)
Other operating costs	569			632			
Taxes and surcharges	1,187			1,052			
Total cost of sales	**72,408**			68,388			

Table 9 Domestic Coal Sales Volume

		2018 million tonnes	Proportion of domestic sales %	2017 million tonnes	Change %
Domestic sales		456.4	100.0	436.4	4.6
By regions	Northern China	173.7	38.1	170.5	1.9
	Eastern China	123.9	27.1	105.4	17.6
	Central China and Southern China	112.9	24.7	103.2	9.4
	Northeast China	45.9	10.1	40.0	14.8
	Others	–	–	17.3	(100.0)
By usage	Thermal coal	374.3	82.0	370.5	1.0
	Metallurgy	24.0	5.3	23.6	1.7
	Chemical (including coal slurry)	55.2	12.1	40.8	35.3
	Others	2.9	0.6	1.5	93.3

Table 10 Capital Expenditure Plan for 2019

	Plan for 2019 RMB100 million	Completion in 2018 RMB100 million
Coal segment	60.7	51.3
Power segment	91.2	129.2
Transportation segment	107.8	48.8
Including: Railway	95.5	37.4
Port	11.4	11.3
Shipping	0.9	0.1
Coal chemical business	11.6	0.7
Others	–	2.1
Total	**271.3**	232.1

Table 11 Cost of Sales of Transportation and Coal Chemical Segments

	Railway 2018 RMB million	Railway 2017 RMB million	Railway Change %	Port 2018 RMB million	Port 2017 RMB million	Port Change %	Shipping 2018 RMB million	Shipping 2017 RMB million	Shipping Change %	Coal Chemical 2018 RMB million	Coal Chemical 2017 RMB million	Coal Chemical Change %
Cost of internal transportation business	15,907	14,724	8.0	2,847	2,349	21.2	2,604	1,971	32.1	/	/	/
Materials, fuel and power	2,545	2,440	4.3	383	334	14.7	379	305	24.3	2,560	2,622	(2.4)
Personnel expenses	3,565	3,095	15.2	310	289	7.3	6	4	50.0	323	290	11.4
Repairs and Maintenance	3,482	3,519	(1.1)	271	255	6.3	50	34	47.1	327	267	22.5
Depreciation and amortization	3,782	3,703	2.1	790	840	(6.0)	188	188	–	863	882	(2.2)
External transportation charges	889	715	24.3	/	/	/	1,745	1,217	43.4	/	/	/
Others	1,644	1,252	31.3	1,093	631	73.2	236	223	5.8	89	133	(33.1)
Cost of external transportation business	2,843	2,677	6.2	345	315	9.5	625	498	25.5	/	/	/
Sub-total cost of prime business	18,750	17,401	7.8	3,192	2,664	19.8	3,229	2,469	30.8	4,162	4,194	(0.8)
Other operating costs	722	802	(10.0)	132	106	24.5	/	/	/	560	592	(5.4)
Taxes and surcharges	443	429	3.3	187	110	70.0	3	3	–	179	182	(1.6)
Total cost of sales	**19,915**	18,632	6.9	**3,511**	2,880	21.9	**3,232**	2,472	30.7	**4,901**	4,968	(1.3)

Table 12 Coal Sales Price

	2018 Sales volume million tonnes	2018 Percentage to total sales volume %	2018 Price RMB/tonne	2017 Sales volume million tonnes	2017 Percentage to total sales volume %	2017 Price RMB/tonne	Change Sales volume %	Change Price %
I. Domestic sales	456.4	99.0	428	436.4	98.3	426	4.6	0.5
(I) Self-produced coal and purchased coal	435.9	94.6	428	416.3	93.8	426	4.7	0.5
1. Direct arrival	167.6	36.4	316	160.3	36.1	310	4.6	1.9
2. Seaborne	268.3	58.2	499	256.0	57.7	498	4.8	0.2
(II) Sales of domestic trading coal	16.5	3.5	419	19.4	4.4	427	(14.9)	(1.9)
(III) Sales of imported coal	4.0	0.9	457	0.7	0.1	591	471.4	(22.7)
II. Export sales	1.7	0.4	543	2.2	0.5	447	(22.7)	21.5
III. Overseas sales	2.8	0.6	506	5.2	1.2	382	(46.2)	32.5
Total sales volume/average price	460.9	100.0	429	443.8	100.0	425	3.9	0.9
Including: Sales to external customers	353.6	76.7	441	344.7	77.7	436	2.6	1.1
Sales to internal power segment	103.2	22.4	393	94.7	21.3	390	9.0	0.8
Sales to internal coal chemical segment	4.1	0.9	360	4.4	1.0	359	(6.8)	0.3

Table 13 Coal Resources Reserve

Mines	Coal resources (under PRC standard) As at 31 December 2018 100 million tonnes	Coal resources As at 31 December 2017 100 million tonnes	Coal resources Change %	Recoverable reserve (under PRC standard) As at 31 December 2018 100 million tonnes	Recoverable reserve As at 31 December 2017 100 million tonnes	Recoverable reserve Change %	Marketable reserve (under JORC standard) As at 31 December 2018 100 million tonnes	Marketable reserve As at 31 December 2017 100 million tonnes	Marketable reserve Change %
Shendong Mines	160.3	162.3	(1.2)	92.3	93.8	(1.6)	47.8	49.7	(3.8)
Zhunge'er Mines	39.0	39.6	(1.5)	31.2	31.7	(1.6)	20.7	21.2	(2.4)
Shengli Mines	20.3	20.4	(0.5)	13.8	14.0	(1.4)	2.1	2.3	(8.7)
Baorixile Mines	13.9	14.2	(2.1)	11.8	12.0	(1.7)	12.0	12.3	(2.4)
Baotou Mines	0.5	0.5	–	0.4	0.4	–	–	–	–
Xinjie Mines	64.2	–	–	–	–	–	–	–	–
Others	4.8	–	–	–	–	–	–	–	–
Total of China Shenhua	**303.0**	237.0	27.8	**149.5**	151.9	(1.6)	**82.6**	85.5	(3.4)

Table 14 Seaborne Coal at Ports

	2018 million tonnes	2017 million tonnes	Change %
Self-owned ports	**238.3**	227.8	4.6
Huanghua Port	193.2	184.1	4.9
Shenhua Tianjin Coal Dock	45.1	43.7	3.2
Third-party ports	**31.7**	30.4	4.3
Total seaborne coal sales	**270.0**	258.2	4.6

Table15 Railway Cargo Transportation Turnover

	2018 billion tonne km	2017 billion tonne km	Change %
Self-owned railways	**283.9**	273.0	4.0
Shenshuo Railway	52.6	52.6	–
Shuohuang-Huangwan Railway	176.3	171.1	3.0
Dazhun Railway	30.1	28.4	6.0
Baoshen Railway	9.9	8.9	11.2
Ganquan Railway	1.2	1.4	(14.3)
Bazhun Railway	3.6	2.1	71.4
Zhunchi Railway	10.2	8.5	20.0
Tahan Railway	–	–	N/A
State-owned railways	**39.6**	30.6	29.4
Total railway turnover	**323.5**	303.6	6.6

Self-owned railways under construction	Length	Planned annual transportation capacity	Commencement year	Estimated completion year
Huangda Railway	210.2 km	40 million tonnes	2015	2020

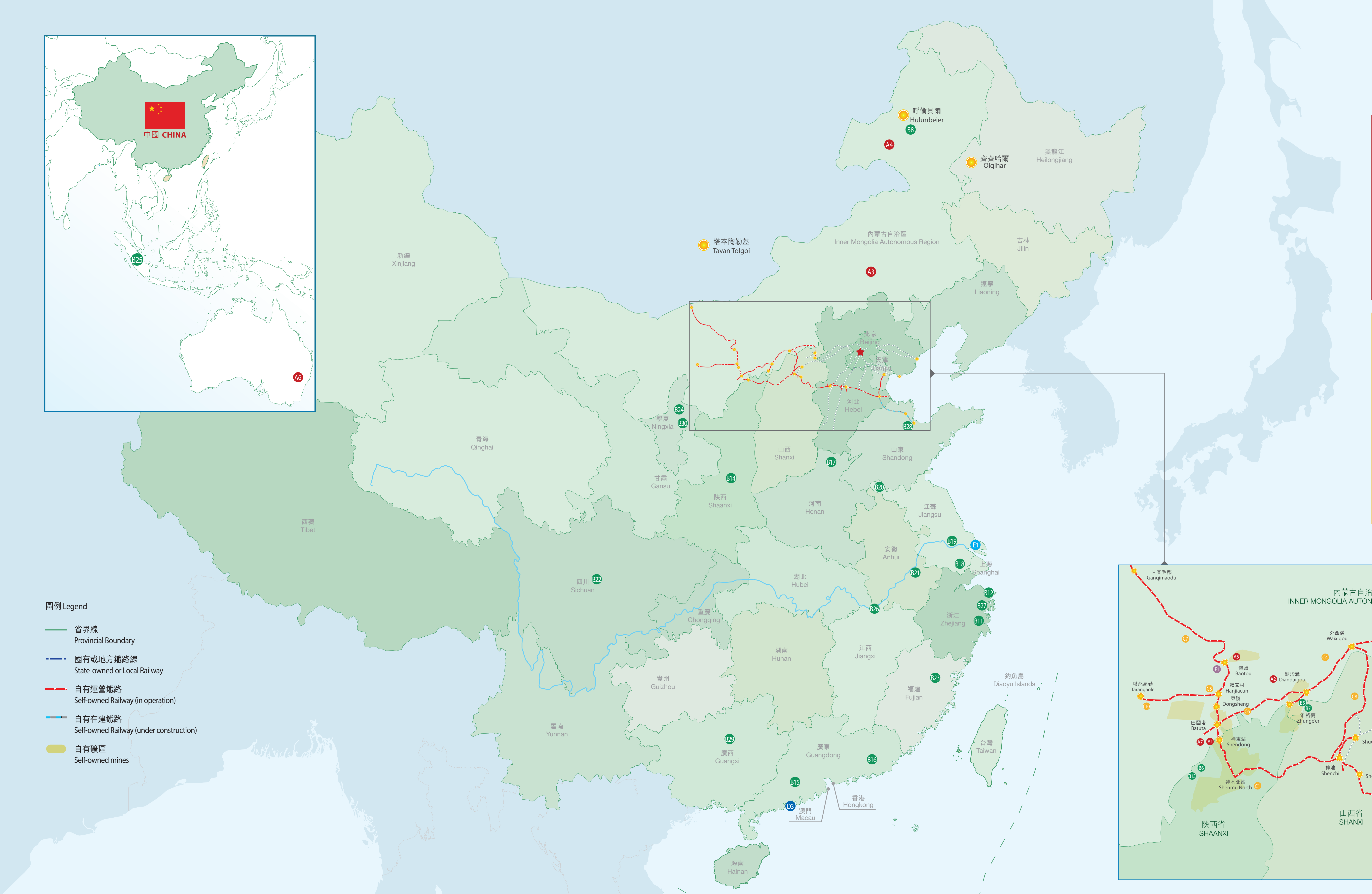
Table 16 Shipping Volume

	2018 million tonnes	2017 million tonnes	Change %
Shenhua Zhonghai Shipping Company			
The Group's internal customers	79.9	70.1	14.0
External customers	23.7	22.9	3.5
Total of shipping volume	**103.6**	93.0	11.4

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

2019



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. 富平熱電
Fuping Thermal

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. 九江電力
Jiujiang Power

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

煤化工 COAL CHEMICAL

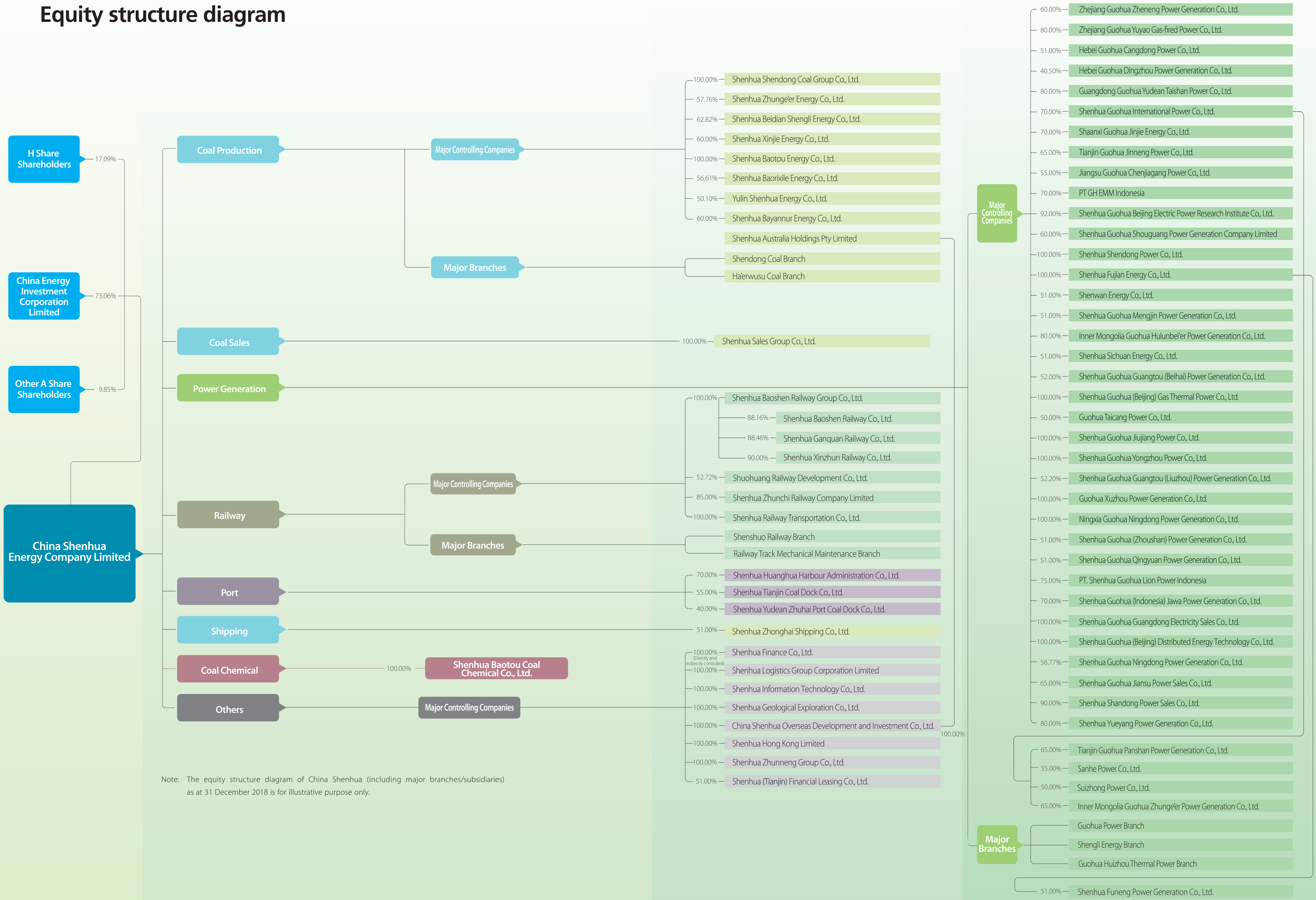
F1. 包頭煤化工
Baotou Coal Chemical

航運 SHIPPING

E1. 神華中海航運
Shenhua Zhonghai Shipping Company

註： 於2018年12月31日之分佈圖，僅做示意。
Note: This map as at 31 December 2018 is for illustrative purpose only.

Equity structure diagram



Note: The equity structure diagram of China Shenhua (including major branches/subsidiaries) as at 31 December 2018 is for illustrative purpose only.

I. DISCUSSION AND ANALYSIS ON OPERATION RESULTS

In 2018, the Group continued to push forward the integration mode by seizing the favorable opportunity of demand growth in the coal and power markets and striving to overcome the impact brought by the output reduction of certain coal mines and adverse weather, and made use of its own transportation and sales network to achieve operating profits at every stage of the industrial chain, hence contributing to enhancing competitiveness and maintaining stable operating results.

The Group recorded a profit for the year of RMB54,164 million (2017: RMB57,138 million) representing a year-on-year decrease of 5.2%; a profit for the year attributable to equity holders of the Company of RMB44,137 million (2017: RMB47,795 million); and basic earnings per share of RMB2.219/share (2017: RMB2.403/share), representing a year-on-year decrease of 7.7%.

		Actual amount for 2018	Target for 2018	Proportion of Completion %	Actual amount for 2017	Year-on-year change %
Commercial coal production	100 million tonnes	2.966	2.9	102.3	2.954	0.4
Coal sales	100 million tonnes	4.609	4.3	107.2	4.438	3.9
Total power output dispatch	Billion kWh	267.59	248.6	107.6	246.25	8.7
Revenue	RMB100 million	2,641.01	2,493	105.9	2,487.46	6.2
Cost of sales	RMB100 million	1,736.77	1,684	103.1	1,604.60	8.2
Selling, general and administrative expenses (including research and development costs), net finance costs	RMB100 million	149.75	138	108.5	132.79	12.8
Changes in unit production costs of self-produced coal	/	Year-on-year increase of 7.6%	Year-on-year increase of approximately 8%	/	Year-on-year decrease of 1.6%	/

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

		2018	2017	Change
Return on total assets as at the end of the period	%	9.2	10.0	Decreased by 0.8 percentage point
Return on net assets as at the end of the period	%	13.3	15.6	Decreased by 2.3 percentage points
EBITDA	RMB million	97,363	101,310	-3.9%

		As at 31 December 2018	As at 31 December 2017	Change
Net asset per share	RMB/share	16.68	15.36	8.6%
Gearing ratio	%	30.9	33.7	Decreased by 2.8 percentage points
Total debt to total debt and total equity ratio	%	12.9	20.4	Decreased by 7.5 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	2018	2017	Change %
Revenue	264,101	248,746	6.2
Cost of sales	(173,677)	(160,460)	8.2
Selling expenses	(725)	(612)	18.5
Other gains and losses	(2,844)	(1,880)	51.3
Other income	744	894	(16.8)
Impairment losses, net of reversal	(152)	N/A	N/A
Other expenses	(3,504)	(1,262)	177.7
Interest income	1,479	1,205	22.7
Finance costs	(5,421)	(4,416)	22.8
Share of results of associates	448	534	(16.1)
Net cash generated from operating activities	88,248	95,152	(7.3)
Of which: Net cash generated from operating activities of Shenhua Finance Company Note	10,660	7,221	47.6
Net cash generated from operating activities excluding the effect of Shenhua Finance Company	77,588	87,931	(11.8)
Net cash (used in) generated from investing activities	(53,056)	13,363	(497.0)
Net cash used in financing activities	(44,715)	(77,621)	(42.4)

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 2018 recorded a year-on-year increase of 6.2%. The main reasons for such change are:

① Benefited from the growth of total power consumption of the society and the Group's strengthened marketing efforts, the power output dispatch of the Group in 2018 reached 267.59 billion kWh (2017: 246.25 billion kWh), representing a year-on-year increase of 8.7%;

② In 2018, total domestic coal consumption continued to maintain a momentum of growth. In response to the market demand, the Group strengthened the sales of purchased coal, with the sales volume of coal throughout the year reaching 460.9 million tonnes (2017: 443.8 million tonnes), representing a year-on-year increase of 3.9%.

③ As the coal business served as the driver for the growth in the business volume of self-owned railways, ports and shipping, revenue from transportation business of the Group before consolidated eliminations recorded a year-on-year increase of 6.0%.

Major operating indicators	Unit	2018	2017	Change for 2018 compared with that for 2017 %	2016
(I) Coal					
1. Commercial coal production	Million tonnes	296.6	295.4	0.4	289.8
2. Coal sales	Million tonnes	460.9	443.8	3.9	394.9
Of which:					
Self-produced coal	Million tonnes	300.7	301.0	(0.1)	285.5
Purchased coal	Million tonnes	160.2	142.8	12.2	109.4
(II) Transportation					
1. Turnover of self-owned railway	Billion tonne km	283.9	273.0	4.0	244.6
2. Sales of seaborne coal	Million tonnes	270.0	258.2	4.6	226.4
Of which: Via Huanghua Port	Million tonnes	193.2	184.1	4.9	158.6
Via Shenhua Tianjin Coal Dock	Million tonnes	45.1	43.7	3.2	39.5
3. Shipping volume	Million tonnes	103.6	93.0	11.4	79.2
4. Shipment turnover	Billion tonne nautical miles	89.9	80.4	11.8	63.0
(III) Power generation					
1. Gross power generation	Billion kWh	285.32	262.87	8.5	236.04
2. Total power output dispatch	Billion kWh	267.59	246.25	8.7	220.57
(IV) Coal chemical					
1. Sales of polyethylene	Thousand tonnes	315.4	324.6	(2.8)	292.6
2. Sales of polypropylene	Thousand tonnes	297.7	308.8	(3.6)	282.1

(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	**56,321**	32.4	49,950	31.1	12.8
Raw materials, fuel and power	**23,118**	13.3	19,523	12.2	18.4
Personnel expenses	**15,888**	9.1	13,842	8.6	14.8
Depreciation and amortisation	**20,243**	11.7	21,576	13.5	(6.2)
Repairs and maintenance	**10,025**	5.8	9,938	6.2	0.9
Transportation charges	**16,635**	9.6	14,326	8.9	16.1
Taxes and surcharges	**10,053**	5.8	9,640	6.0	4.3
Others	**21,394**	12.3	21,665	13.5	(1.3)
Total cost of sales	**173,677**	100.0	160,460	100.0	8.2

The cost of sales of the Group in 2018 represented a year-on-year increase of 8.2%, of which:

① The cost of coal purchased represented a year-on-year increase of 12.8%, which was mainly attributable to the expansion of the sales volume of purchased coal by the Group according to market supply and demand;

② Costs of raw materials, fuel and power represented a year-on-year increase of 18.4%, which was mainly attributable to the increase in coal cost in the power segment as a result of the increase in power generation, and the increase in consumption of materials for coal mine stripping and excavation;

③ Personnel expenses represented a year-on-year increase of 14.8%, which was mainly attributable to the raise of salary standard by certain production units based on the operating performance;

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 16.1% in 2018, which was mainly attributable to the increase in volume of coal transported through national railways and the increase in chartering costs;

Unit: RMB million

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

Business segment	Items of costs	**2018**	2017	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	**156,143**	143,461	8.8
Power	Raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, other costs, other operating costs, and taxes and surcharges	**72,408**	68,388	5.9
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	**19,915**	18,632	6.9
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	**3,511**	2,880	21.9
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	**3,232**	2,472	30.7
Coal Chemical	Raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortisation, other expenses, other operating costs, and taxes and surcharges	**4,901**	4,968	(1.3)

(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) → conversion of coal (power and coal chemical), and there are business intercourses between each segment. 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 61%, 10%, 28% and 1% in 2017 to 56%, 16%, 27% and 1% in 2018, respectively.

The revenue and cost of sales of the following business segments are the data before eliminations on consolidation of each segment.

Major business segments in 2018 (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
	RMB million	*RMB million*	*%*	*%*	*%*	
Coal	205,191	156,143	23.9	4.7	8.8	Decreased by 2.9 percentage points
Power	88,452	72,408	18.1	11.2	5.9	Increased by 4.1 percentage points
Railway	39,149	19,915	49.1	4.2	6.9	Decreased by 1.3 percentage points
Port	6,124	3,511	42.7	7.1	21.9	Decreased by 6.9 percentage points
Shipping	4,089	3,232	21.0	25.9	30.7	Decreased by 2.9 percentage points
Coal chemical	5,840	4,901	16.1	2.8	(1.3)	Increased by 3.5 percentage points

(4) Analysis of the production and sales volume

Major products	Production	Sales volume	Inventory at the end of the year	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	296.6 million tonnes	460.9 million tonnes	23.7 million tonnes	0.4	3.9	(4.0)
Power	285.32 billion kWh	267.59 billion kWh	/	8.5	8.7	/

(5) Major customers

In 2018, the total revenue from the top five customers of the Group amounted to RMB72,626 million, accounting for 27.5% of the revenue of the Company (less than 30%), including the revenue from China Energy, the controlling shareholder of the Company, and its subsidiaries. The Group has maintained long-term cooperative relationship with the above customers. The Company is of the view that the long-term cooperative relationship would not result in material risk to the business of the Group.

(6) Major suppliers

In 2018, the total procurement from the top five suppliers of the Group amounted to RMB32,951 million, accounting for 24.2% (less than 30%) of the total procurement for the year, among which, the procurement from the largest supplier amounted to RMB9,934 million, representing 7.3% of the total procurement for the year.

2. Other items of consolidated statement of profit or loss

(1) Selling expenses: representing a year-on-year increase of 18.5% in 2018, which was mainly attributable to the increase in expenses of coal sales institutions as a result of the increase in purchased coal and newly added switch stations.

(2) Other gains and losses: representing a year-on-year increase of 51.3% in other losses in 2018, which was mainly attributable to the losses and expenses arising from disposal of assets in relation to the separation and transfer of "water/power/gas supply and property management" in 2018.

(3) Other income: representing a year-on-year decrease of 16.8% in 2018, which was mainly attributable to the decrease in government subsidy received by gas-fired power plants.

(4) Impairment losses, net of reversal: amounted to RMB152 million in 2018, which was mainly attributable to the provision for impairment of bills receivables and accounts receivables, and the impairment provision made by Shenhua Finance Company in accordance with relevant regulations.

(5) Other expenses: representing a year-on-year increase of 177.7% in 2018, which was mainly attributable to the occurrence of expenditures in relation to the separation and transfer of "water/power/gas supply and property management" in 2018 and the increase in donations to third parties.

(6) Interest income: representing a year-on-year increase of 22.7% in 2018, which was mainly attributable to the increase in average bank deposit balance.

(7) Finance costs: representing a year-on-year increase of 22.8% in 2018, which was mainly attributable to the increase in exchange losses on foreign currency liabilities.

(8) Share of results of associates: representing a year-on-year decrease in revenue of 16.1% in 2018, which was mainly attributable to the decrease in operating profits of associates.

3. Investment in research and development

Expensed research and development expenditure in the period *(RMB million)*	454
Capitalised research and development expenditure in the period *(RMB million)*	406
Total research and development expenditure *(RMB million)*	860
Ratio of capitalised research and development expenditure *(%)*	47.2
Percentage of total research and development expenditure to revenue *(%)*	0.3
Number of research and development personnel in the Company *(number of person)*	2,603
The ratio of research and development personnel to the total number of persons in the Company *(%)*	3.0

In 2018, investment in research and development amounted to RMB860 million (2017: RMB863 million), which is mainly utilised in research and demonstration engineering of a set of 8.8-meter height fully-mechanised smart mining equipment at Shendong Mines, demonstration project of the industrialization of aluminium oxide, high-aluminium pulverized fuel ash integrated use and technological research on safety monitoring and protection, etc..

4. Cash flow

The Group formulated capital management policies that aimed to achieve maximized 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, and the capital was invested in accordance with the policy of the Company.

(1) Net cash generated from operating activities: RMB88,248 million of net cash generated from operating activities in 2018, representing a year-on-year decrease of 7.3%, of which, net cash generated from operating activities of Shenhua Finance Company was RMB10,660 million (2017: RMB7,221 million generated from operating activities), representing a year-on-year increase of 47.6%, 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 11.8%, which was mainly attributable to the increase in cash outflows as a result of the increase in production cost of self-produced coal, percentage of sales of purchased coal and external transportation charges, and the increase in taxes and expenses as compared to the corresponding period of previous year.

(2) Net cash (used in) generated from investing activities: RMB53,056 million of net cash used in investing activities in 2018 (2017: RMB13,363 million generated from investing activities), representing a year-on-year change of 497.0%, which was mainly attributable to the maturity of wealth management products for the corresponding period of previous year and the additional investments in wealth management products for the current year.

(3) Net cash used in financing activities: RMB44,715 million of net cash used in financing activities in 2018, representing a year-on-year decrease of 42.4%, which was mainly attributable to the distribution of special dividends by the Company for the corresponding period of previous year and the increase in bank borrowings for the power segment 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
Prepaid expenses and other current assets	**54,702**	**9.2**	20,452	3.6	167.5	Purchase of bank wealth management products and granting of loans by Shenhua Finance Company
Restricted bank deposits	**8,607**	**1.5**	7,348	1.3	17.1	Mainly attributable to the increase in statutory deposit reserves balance and deposits of various kinds
Cash and cash equivalents	**61,863**	**10.5**	71,872	12.6	(13.9)	Purchase of bank wealth management products and repayment of matured bonds denominated in US Dollar and loans
Short-term borrowings and long-term borrowings due within 1 year	**5,772**	**1.0**	15,785	2.8	(63.4)	Repayment of bank loans by power plants
Long-term payables due within 1 year	**457**	**0.1**	345	0.1	32.5	Increase in expected reclamation fee and mining right fee payable
Income tax payable	**4,213**	**0.7**	5,604	1.0	(24.8)	Decrease in taxable income
Accrued land reclamation fee	**3,191**	**0.5**	2,745	0.5	16.2	Provision for coal mine environmental restoration fund to replace the original coal mine environmental restoration deposit since 2018 in accordance with the regulatory requirements

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 RMB10,631 million, which mainly consists of statutory deposit reserves balance of Shenhua Finance Company placed at the central bank amounting to RMB6,254 million. Other restricted assets were mainly intangible assets, fixed assets and various types of deposits as collaterals for bank borrowings.

(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 year of 2018 witnessed a relatively strong domestic coal demand, with sharp increase in coal consumption in the power and chemical industries, and steady increase in coal consumption in the iron and steel and construction material industries. By seizing such favorable opportunity, the Group insisted on safe, green, balanced and efficient production to effectively guarantee market supply. In view of the climate features of the northeast regions, the Group made rational arrangements of coal mining to fully support for the coal demand in winter in the northeast region. In addition, the Group carried out in-depth promotion of quality and efficiency to produce clean coal; continued to optimize the structure of coal products to increase the output of high value-added products; increased investment in technological innovation; and strengthened the management of and control over production organization, coal quality, and disaster detection and early-warning. The Group's output of commercial coal reached 296.6 million tonnes in the year (2017: 295.4 million tonnes), representing a year-on-year growth of 0.4%, which was mainly attributable to the stable and increased output of Shendong Mines and Shenbao Mines. The total footage of advancing tunnels was 373 thousand meters (2017: 335 thousand meters), representing a year-on-year increase of 11.3%.

The Group proactively pushed forward the application for coal mining lands and acquisition of resources. The procedures for obtaining the grassland occupancy permit and the renewal procedures for the use of mining land in the Ha'erwusu Open-pit Mine have been completed; the renewal procedures for the use of land in the excavating yard of the Baorixile Open-pit Mine have been preliminarily approved; Beidian Shengli obtained an additional production capacity of 8 million tonnes/year for its open-pit mine through the purchase of production capacity replacement quota; the renewal of exploration permit of Taigemiao North District of Xinjie Mining Area was completed in July 2018 with a new comprehensive exploration permit certificate, while Taigemiao South District is actively applying for its exploration permit.

Production and sales volumes of all coals in 2018 of the Group are as below:

Types of coal	**Production volume** *Million tonnes*	**Sales volume** *Million tonnes*	**Revenue** *RMB million*	**Cost of sales** *RMB million*	**Gross profit** *RMB million*
Thermal coal	296.6	460.5	197,161	143,495	53,666
Others	/	0.4	620	618	2
Total	296.6	460.9	197,781	144,113	53,668

As coal products were in great variety with a large sales volume, 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 2018, 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 RMB18 million (2017: RMB48 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 RMB4,141 million (2017: RMB3,332 million), which was mainly attributable to the expenditure on the preliminary development of Taigemiao District of Xinjie Mining Area, the expenditure related to coal mining for Shendong Mines, Zhunge'er Mines and Baorixile Mines, and 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.

In 2018, the Group conducted scientific research and study of market to formulate flexible marketing strategies, and continued to optimize coal source organization and transportation deployment to satisfy customer needs to the maximum, thus achieving stable integration operation at a high level. The profit from coal sales was increased through various measures, such as maximizing the supply of self-produced coal, strengthening the sales of purchased coal, making reasonable adjustment to product structure and holding electronic auctions. During the year, sales volume of coal reached 460.9 million tonnes (2017: 443.8 million tonnes), representing a year-on-year increase of 3.9%, among which, Sales volume of coal in the domestic market was 456.4 million tonnes. The seaborne coal business achieved quality development through efficient coordination of port and shipping resources to increase the "quasi-liner shipping" volume. The seaborne coal sales for the year reached 270.0 million tonnes (2017: 258.2 million tonnes), representing a year-on-year increase of 4.6%. The seaborne coal sales at Huanghua Port and Shenhua Tianjing Coal Dock in aggregate accounted for 88.3% of the total seaborne coal sales of the Group (2017: 88.2%), representing a year-on-year increase of 0.1 percentage point.

The Group expanded procurement and sales channels for coal and improved sales efficiency through Shenhua Coal Trading Network (https://www.e-shenhua.com) developed by itself. In 2018, the coal sales volume of the Group through Shenhua Coal Trading Network reached approximately 200 million tonnes.

The Group implemented three unified pricing mechanisms, namely, the pricing mechanisms for annual long-term contracts, monthly long-term contracts and spot commodity, for all internal and external customers. In 2018, the average coal sales price of the Group was RMB429 per tonne (tax exclusive) (2017: RMB425 per tonne), representing a year-on-year growth of 0.9%. As of the end of 2018, the Group has entered into annual long-term thermal coal purchase contracts with 15 domestic quality customers with good reputation for three years (2019–2021), which will adopt the pricing mechanism of "benchmark price (RMB535/tonne for 5,500 kcal thermal coal (tax-inclusive spot FOB)) + float price". Long-term stable internal and external coal customers are favorable for the Group to arrange production and transportation plans on a reasonable basis, and maintain integrated stable operation at a high level as well as a high production efficiency, transportation efficiency and capital turnover ratio.

Coal sales of the Group in 2018 are set out as follows:

① By internal and external customers

	2018			2017			Change in price (exclusive of tax)
	Sales volume	Percentage	Price (exclusive of tax)	Sales volume	Percentage	Price (exclusive of tax)	
	Million tonnes	*%*	*RMB/ tonne*	*Million tonnes*	*%*	*RMB/ tonne*	*%*
Sales to external customers	353.6	76.7	441	344.7	77.7	436	1.1
Sales to internal power segment	103.2	22.4	393	94.7	21.3	390	0.8
Sales to internal coal chemical segment	4.1	0.9	360	4.4	1.0	359	0.3
Total sales volume/ average price (exclusive of tax)	460.9	100.0	429	443.8	100.0	425	0.9

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

In 2018, the sales volume of the Company to the top five domestic customers of coal was 99.3 million tonnes, which accounted for 21.8% of the domestic sales volume. The top five domestic customers of coal were primarily power and coal trading companies.

② By sales regions

	2018			2017			Change	
	Sales volume	Proportion of total sales	Price (exclusive of tax)	Sales volume	Proportion of total sales	Price (exclusive of tax)	Sales volume	Price (exclusive of tax)
	Million tonnes	*%*	*RMB/ tonne*	*Million tonnes*	*%*	*RMB/ tonne*	*%*	*%*
I. Domestic sales	456.4	99.0	428	436.4	98.3	426	4.6	0.5
(I) Self-produced coal and purchased coal	435.9	94.6	428	416.3	93.8	426	4.7	0.5
1. Direct arrival	167.6	36.4	316	160.3	36.1	310	4.6	1.9
2. Seaborne	268.3	58.2	499	256.0	57.7	498	4.8	0.2
(II) Sales of domestic trading coal	16.5	3.5	419	19.4	4.4	427	(14.9)	(1.9)
(III) Sales of imported coal	4.0	0.9	457	0.7	0.1	591	471.4	(22.7)
II. Export Sales	1.7	0.4	543	2.2	0.5	447	(22.7)	21.5
III. Overseas sales	2.8	0.6	506	5.2	1.2	382	(46.2)	32.5
Total sales volume/average price (exclusive of tax)	460.9	100.0	429	443.8	100.0	425	3.9	0.9

③ By contract pricing mechanisms

	Sales volume *Million tonnes*	Proportion of total sales *%*	Price *RMB/tonne*
I. Annual long-term contracts	220.5	47.8	381
II. Monthly long-term contracts	158.9	34.5	511
III. Spot commodity	81.5	17.7	401
Total sales volume/average price (exclusive of tax)	460.9	100.0	429

Note:

1. The above is the summary of the sales of coal products with different calorific values;
2. In spot sale, direct sales volume with a low sales price accounted for a large proportion.

(3) Production safety

In 2018, the Group took various measures to ensure coal mine production safety, such as promoting the construction of the major disaster and hidden danger management and emergency rescue system to continuously improve the standardization of coal mine safety production, carrying out comprehensive or special inspections and supervision on an on-going basis to identify hidden dangers and eliminate major risks, and ensuring safety with the help of science and technology, i.e. conducting upgrading and renovation of the mine safety monitoring system.

In 2018, the fatality rate per million tonne of raw coal output in the coal mines of the Group was 0.0126, enabling the Group to maintain its internationally leading position.

Efforts in ensuring safe coal production are detailed in the 2018 ESG Report of the Group.

(4) Environmental protection

In 2018, with continuous promotion of green and efficient coal mining, the environmental safety level of the Group's mining areas has been continually advanced. Remarkable achievements were made in land reclamation and greening of open-pit mines, treatment and utilisation of mine water, and resource utilisation of gangue, with the utilisation rate of mine water being 83.2% and the comprehensive utilisation of gangue amounting to 11.63 million tonnes. There were no major or more serious environmental safety incidents during the year.

At the end of 2018, balance of the "accrued reclamation obligations" amounted to RMB3,191 million, serving as strong financial guarantee for ecological construction.

Measures which are taken by the coal segment of the Company for environmental protection are detailed in the 2018 ESG Report of the Group.

(5) *Coal resources*

As at 31 December 2018, under the PRC Standard, the Group had coal reserves amounting to 30.30 billion tonnes, representing an increase of 27.8% as compared with that of the end of 2017, which was mainly attributable to the completion of mineral resource reserves (under exploration rights permit) assessment in Taigemiao North Exploration Area of Xinjie Mining Area ; and recoverable coal reserve amounting to 14.95 billion tonnes, representing a decrease of 1.6% as compared with that of the end of 2017. The Group's marketable coal reserve amounted to 8.26 billion tonnes under the JORC Standard, representing a decrease of 3.4% as compared with that of the end of 2017.

Unit:'00 million tonnes

Mines	Coal reserve (under the PRC Standard)	Recoverable coal reserve (under the PRC Standard)	Marketable coal reserve (under the JORC Standard)
Shendong Mines	160.3	92.3	47.8
Zhunge'er Mines	39.0	31.2	20.7
Shengli Mines	20.3	13.8	2.1
Baorixile Mines	13.9	11.8	12.0
Baotou Mines	0.5	0.4	–
Xinjie Mine	64.2	–	–
Others	4.8	–	–
Total	303.0	149.5	82.6

Notes:

1. As at 31 December 2018, the marketable coal reserve of Baotou Mines under the JORC Standard was 4,381 thousand tonnes.

2. In November 2018, the Ministry of Natural Resources of the People's Republic of China issued opinions upon review of the comprehensive coal exploration report (mineral resource reserves) on Taigemiao North Exploration Area of Xinjie Mining Area.

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	4,800–5,800	0.2–0.8	5–15
2	Zhunge'er Mines	Long flame coal	4,300–4,900	0.3–0.8	18–26
3	Shengli Mines	Lignite	3,100–3,400	0.4–0.7	18–22
4	Baorixile Mines	Lignite	3,300–3,600	0.2–0.3	13–16
5	Baotou Mines	Non-caking coal	4,200–4,800	0.3–0.8	12–18

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

		2018	2017	Change %	Main reasons for changes
Revenue	RMB million	**205,191**	195,918	4.7	Increase in sales volume of coal
Cost of sales	RMB million	**156,143**	143,461	8.8	Increase in the procurement cost of purchased coal due to the increase in sales volume of purchased coal; Increase in related transportation costs resulting from increased coal sales volume
Gross profit margin	%	**23.9**	26.8	Decreased by 2.9 percentage points	
Profit from operations	RMB million	**43,262**	46,051	(6.1)	
Profit margin from operations	%	**21.1**	23.5	Decreased by 2.4 percentage points	

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

	2018				2017			
	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	**195,483**	**142,285**	**53,198**	**27.2**	185,846	129,627	56,219	30.3
Export and overseas	**2,298**	**1,828**	**470**	**20.5**	2,997	2,539	458	15.3
Total	**197,781**	**144,113**	**53,668**	**27.1**	188,843	132,166	56,677	30.0

③ Unit production cost of self-produced coal

Unit: RMB/tonne

	2018	2017	Change %	Main reasons for changes
Unit production cost of self-produced coal	**116.1**	107.9	7.6	
Raw materials fuel and power	**23.0**	17.9	28.5	Increase in material consumption due to the tripping works in open-pit mines such as the Ha'erwusu Open-pit Mine, and the increase in tunnelling footage
Personnel expenses	**21.2**	18.8	12.8	The raise of salary by certain production units
Repairs and maintenance	**8.8**	8.9	(1.1)	
Depreciation and amortisation	**18.5**	19.5	(5.1)	During the reporting period, the sufficient provision for depreciation of certain assets
Other costs	**44.6**	42.8	4.2	Increase in mining engineering expenses, coal washing, selecting and processing expenses and professional service fee

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 21%; (3) land requisition and surface subsidence compensation, environmental protection expenses and tax, accounting for 19%.

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 2018, sales volume of coal purchased by the Group from third parties was 160.2 million tonnes (2017: 142.8 million tonnes), representing a year-on-year increase of 12.2%, and its proportion of the Company's total sales volume of coal increased to 34.8% from 32.2% in 2017. The costs of coal purchased from third parties for the year was RMB56,321 million (2017: RMB49,950 million), representing a year-on-year increase of 12.8%. The increase was mainly due to 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 2018, given the favorable opportunity of the rapid growth of total power consumption of the society, the Group made greater marketing efforts in the power segment, and therefore realised 285.32 billion kWh (2017: 262.87 billion kWh) of power generation, representing a year-on-year increase of 8.5%. The total power output dispatch reached 267.59 billion kWh (2017: 246.25 billion kWh), representing a year-on-year increase of 8.7% and accounting for 3.9% of the total power consumption of the society at the same period (being 6,844.9 billion kWh[1]). In active response to the power system reform, the Group gave full play to the advantages of industrial chain integration, large capacity generating units and power distribution to optimize the allocation of power resource for market-based transactions. During the year, the market-based power transaction of the Group was approximately 80.27 billion kWh, accounting for approximately 30.0% of the total power output dispatch.

[1] Data source: China Electricity Council

(2) Power consumption and power tariffs

① Classified by power type

Power type	Gross power generation (billion kWh) 2018	2017	Change %	Total power output dispatch (billion kWh) 2018	2017	Change %	Power tariff (RMB/mWh) 2018	2017	Change %
Coal-fired power	278.78	256.86	8.5	261.20	240.39	8.7	313	306	2.3
Gas-fired power	5.85	5.29	10.6	5.71	5.15	10.9	561	571	(1.8)
Hydro power	0.69	0.70	(1.4)	0.68	0.69	(1.4)	222	214	3.7
Wind power	0.00	0.02	(100.0)	0.00	0.02	(100.0)	0	599	(100.0)
Total	285.32	262.87	8.5	267.59	246.25	8.7	318	312	1.9

② Classified by location

Location/Type of power	Gross power generation (billion kWh) 2018	2017	Year-on-year %	Total power output dispatch (billion kWh) 2018	2017	Year-on-year %	Power tariff (RMB/mWh) 2018	2017	Year-on-year %
Domestic in total/ weighted average	283.73	261.29	8.6	266.20	244.87	8.7	313	311	0.6
Hebei	33.95	34.83	(2.5)	31.84	32.67	(2.5)	319	309	3.2
coal-fired power	33.95	34.83	(2.5)	31.84	32.67	(2.5)	319	309	3.2
Jiangsu	23.21	24.17	(4.0)	22.16	23.06	(3.9)	324	319	1.6
coal-fired power	23.21	24.17	(4.0)	22.16	23.06	(3.9)	324	319	1.6
Zhejiang	29.04	28.08	3.4	27.54	26.60	3.5	364	367	(0.8)
coal-fired power	27.11	26.37	2.8	25.66	24.93	2.9	354	352	0.6
gas-fired power	1.93	1.71	12.9	1.88	1.67	12.6	503	587	(14.3)
Inner Mongolia	24.41	21.34	14.4	21.83	19.20	13.7	223	212	5.2
coal-fired power	24.41	21.34	14.4	21.83	19.20	13.7	223	212	5.2
Guangdong	27.32	23.79	14.8	25.65	22.21	15.5	355	363	(2.2)
coal-fired power	27.32	23.77	14.9	25.65	22.19	15.6	355	363	(2.2)
wind power	0.00	0.02	(100.0)	0.00	0.02	(100.0)	0	599	(100.0)
Shaanxi	26.60	25.40	4.7	24.36	23.18	5.1	267	260	2.7
coal-fired power	26.60	25.40	4.7	24.36	23.18	5.1	267	260	2.7
Anhui	23.66	22.79	3.8	22.60	21.78	3.8	322	305	5.6
coal-fired power	23.66	22.79	3.8	22.60	21.78	3.8	322	305	5.6
Liaoning	17.57	18.13	(3.1)	16.49	17.03	(3.2)	309	299	3.3
coal-fired power	17.57	18.13	(3.1)	16.49	17.03	(3.2)	309	299	3.3
Fujian	15.55	13.40	16.0	14.89	12.80	16.3	341	328	4.0
coal-fired power	15.55	13.40	16.0	14.89	12.80	16.3	341	328	4.0
Xinjiang	5.64	4.79	17.7	5.19	4.39	18.2	181	194	(6.7)
coal-fired power	5.64	4.79	17.7	5.19	4.39	18.2	181	194	(6.7)
Tianjin	5.10	5.15	(1.0)	4.77	4.81	(0.8)	355	360	(1.4)
coal-fired power	5.10	5.15	(1.0)	4.77	4.81	(0.8)	355	360	(1.4)
Henan	5.04	5.94	(15.2)	4.75	5.62	(15.5)	300	305	(1.6)
coal-fired power	5.04	5.94	(15.2)	4.75	5.62	(15.5)	300	305	(1.6)

Location/Type of power	Gross power generation (billion kWh) 2018	2017	Year-on-year %	Total power output dispatch (billion kWh) 2018	2017	Year-on-year %	Power tariff (RMB/mWh) 2018	2017	Year-on-year %
Sichuan	4.04	3.12	29.5	3.72	2.87	29.6	356	348	2.3
coal-fired power	3.35	2.42	38.4	3.04	2.18	39.4	386	390	(1.0)
hydropower	0.69	0.70	(1.4)	0.68	0.69	(1.4)	222	214	3.7
Ningxia	9.64	4.68	106.0	8.94	4.21	112.4	229	226	1.3
coal-fired power	9.64	4.68	106.0	8.94	4.21	112.4	229	226	1.3
Chongqing	6.44	4.91	31.2	6.16	4.70	31.1	348	348	0.0
coal-fired power	6.44	4.91	31.2	6.16	4.70	31.1	348	348	0.0
Beijing	3.92	3.58	9.5	3.83	3.48	10.1	589	563	4.6
gas-fired power	3.92	3.58	9.5	3.83	3.48	10.1	589	563	4.6
Shanxi	3.39	4.55	(25.5)	3.18	4.25	(25.2)	276	229	20.5
coal-fired power	3.39	4.55	(25.5)	3.18	4.25	(25.2)	276	229	20.5
Shandong	11.52	10.78	6.9	10.99	10.26	7.1	339	318	6.6
coal-fired power	11.52	10.78	6.9	10.99	10.26	7.1	339	318	6.6
Guangxi	1.98	1.86	6.5	1.86	1.75	6.3	345	345	0.0
coal-fired power	1.98	1.86	6.5	1.86	1.75	6.3	345	345	0.0
Jiangxi	5.71	0.00	N/A	5.45	0.00	N/A	354	0.00	N/A
coal-fired power	5.71	0.00	N/A	5.45	0.00	N/A	354	0.00	N/A
Overseas in total/ weighted average	1.59	1.58	0.6	1.39	1.38	0.7	510	477	6.9
Indonesia	1.59	1.58	0.6	1.39	1.38	0.7	510	477	6.9
coal-fired power	1.59	1.58	0.6	1.39	1.38	0.7	510	477	6.9
Total/weighted average	285.32	262.87	8.5	267.59	246.25	8.7	318	312	1.9

(3) Installed capacity

At the end of the reporting period, the total installed capacity of power generation of the Group reached 61,849MW, which represented an increase of 6.9% as compared with the end of last year, among which, the total installed capacity of the coal-fired power generators was 59,994MW, accounting for 5.9% of the total installed capacity of coal-fired power generators of the society (being 1.01 billion kW[1]).

Unit: MW

Power type	Gross installed capacity as at 31 December 2017	Installed capacity increased/ (decreased) during the reporting period	**Gross installed capacity as at 31 December 2018**
Coal-fired power	55,984	4,010	**59,994**
Gas-fired power	1,730	–	**1,730**
Hydro power	125	–	**125**
Wind power	16	(16)	**–**
Total	57,855	3,994	**61,849**

[1] Data source: China Electricity Council

The changes in the installed capacity of generating units of the Group in 2018 are as follows:

Company	Location of generating unit	Installed capacity increased/ (decreased) MW	Remark
Jiujiang Electric Power	Jiangxi	2,000	Operation of new generating units
Fuping Thermal Power	Shaanxi	700	Operation of new generating units
Shenwan Energy	Anhui	1,320	Operation of new generating units
Fujian Energy	Fujian	100	Capacity expansion and upgrading
Zheneng Power	Zhejiang	30	Capacity expansion and upgrading
Taishan Power	Guangdong	60	Capacity expansion and upgrading
Shouguang Power	Shandong	20	Increase upon audit
Shenmu Power	Shaanxi	(220)	Shut down
Zhuhai Wind Energy	Guangdong	(16)	Shut down
Total		3,994	

(4) Utilisation rate of power generation equipment

The average utilisation hours of coal-fired generators of the Group reached 4,877 hours for the year of 2018, representing a year-on-year increase of 194 hours and 516 hours above the national average utilisation hours (being 4,361 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 0.11 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 10.8% of the installed capacity of the coal-fired generating units of the Group.

1 Data source: China Electricity Council

Power type	Average utilisation hours (Hour) 2018	2017	Change %	Power consumption ratio of power plant (%) 2018	2017	Change
Coal-fired power	**4,877**	4,683	4.1	**5.62**	5.72	Decreased by 0.10 percentage point
Gas-fired power	**3,384**	3,059	10.6	**1.90**	2.08	Decreased by 0.18 percentage point
Hydro power	**5,517**	5,618	(1.8)	**0.28**	0.25	Increased by 0.03 percentage point
Wind power	**0**	1,160	(100.0)	**N/A**	0.90	N/A
Weighted average	**4,834**	4,634	4.3	**5.53**	5.64	Decreased by 0.11 percentage point

(5) Environmental protection

In line with the requirements of the state with respect of prevention and control of pollution, the Group continued to push forward the "ultra-low emission", energy saving and consumption reduction of coal-fired generating units. As at the end of the reporting period, the Group completed the desulfurisation and denitrification renovation for all of its domestic coal-fired power generators. 93 "ultra-low emission" coal-fired generators with total capacity of 53,960MW were either built or renovated, accounting for 89.9% 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 308 g/kWh, representing a decrease of 3 g/kWh as compared with 311 g/kWh the same period last year. Both the unit emission and total emission of CO_2, nitrogen oxide and soot generated from coal-fired generators recorded year-on-year decrease.

For detailed information on environmental protection in the power segment, please refer to the 2018 ESG report of the Group.

(6) Capitalised Expenses

In 2018, the capitalised expenses of the power segment of the Group were RMB12.92 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 (2×1,000MW), Shenhua Shendong Power Company Xinjiang Wucaiwan Power Plant Phase II Project (2×660 MW), Shenwan Energy Company Lujiang Power Plant Newly Constructed Project (2×660 MW), and reformation of environmental protection technologies at power plants.

(7) *Market Transaction of Power*

	2018	2017	Change %
Total volume of power in market-based transactions *(billion kWh)*	**80.27**	69.10	16.2
Total volume of on-grid power *(billion kWh)*	**267.59**	246.25	8.7
Percentage of the power in market-based transactions *(%)*	**30.0**	28.1	Increased by 1.9 percentage points

(8) *Operation results of the power sales business*

The Group currently owns three power sales companies located in Shandong, Jiangsu and Guangdong, respectively, which are principally engaged in agent procurement of power demanded by customers and the provision of the incremental distribution grid business and comprehensive energy services.

In 2018, the power output dispatch from non-self-owned power plants of the Group was 0.44 billion kWh, achieving revenue of RMB1.4 million.

(9) Operating results

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

		2018	2017	Change %	Main reasons for changes
Revenue	RMB million	**88,452**	79,511	11.2	Year-on-year increase in power output dispatch and slight increase in average power tariffs
Cost of sales	RMB million	**72,408**	68,388	5.9	Increase in coal cost due to the growth of power generation
Gross profit margin	%	**18.1**	14.0	Increased by 4.1 percentage points	The power plant to be invested by the Company to establish a joint venture with GD Power was classified as held-for-sale assets in September 2019, and therefore it ceased to be depreciated and amortised
Profit from operations	RMB million	**12,720**	7,399	71.9	
Profit margin from operations	%	**14.4**	9.3	Increased by 5.1 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	**2018**	2017	Change %	**2018**	**Percentage to total costs of 2018** %	2017	Percentage to total costs of 2017 %	Change in 2018 over 2017 %
Coal-fired power	**83,798**	75,383	11.2	**67,389**	**95.4**	63,813	95.7	5.6
Gas-fired power	**3,201**	2,941	8.8	**3,179**	**4.5**	2,810	4.2	13.1
Hydro power	**150**	147	2.0	**78**	**0.1**	73	0.1	6.8
Wind power	**0**	11	(100.0)	**6**	**0.0**	8	0.0	(25.0)
Total	**87,149**	78,482	11.0	**70,652**	**100.0**	66,704	100.0	5.9

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 2018 was RMB264.0/mWh (2017: RMB270.9/mWh), representing a year-on-year decrease of 2.5%. The decrease was mainly due to the year-on-year increase in power generation, resulting in the dilution of fixed cost.

The power segment consumed a total of 101.1 million tonnes of the China Shenhua's coal, accounting for 82.5% of the total thermal coal consumption (being 122.6 million tonnes).

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

	2018		2017		Change in
	Costs *RMB million*	**Percentage** *%*	Costs *RMB million*	Percentage *%*	costs *%*
Raw materials, fuel and power	**50,511**	**75.0**	46,008	72.1	9.8
Personnel expenses	**4,453**	**6.6**	3,939	6.2	13.0
Repairs and maintenance	**2,618**	**3.9**	2,706	4.2	(3.3)
Depreciation and amortisation	**7,848**	**11.6**	9,066	14.2	(13.4)
Others	**1,959**	**2.9**	2,094	3.3	(6.4)
Total cost of sale of power of coal-fired power plant	**67,389**	**100.0**	63,813	100.0	5.6

3. Railway segment

(1) Overview of production and operations

In 2018, the railway segment of the Group continued to optimise transportation organisation to improve operation efficiency. The trail run of the long-route train from Haile Sihao South Station to Suning North Station was successful, resulting in the average running time of the train shortened by approximately three to four hours. The Group also re-arranged the operation of heavy-load trains by increasing the shifts of the 3+0 10,000-tonne trains and 20,000-tonne trains. In addition, the Group accelerated the development of railway special lines and station passage capability, with continuous improvement of the railway transportation capability. During the year, the turnover volume of self-owned railways of the Group reached 283.9 billion tonne km (2017: 273.0 billion tonne km), up by 4.0% year on year, reaching a historical high.

The Group took the initiative in conducting macro logistics business. Under the premise of ensuring coal transportation, the Group promoted the development of coal chemical transportation and two-way "quasi-liner shipping", therefore making new progress in the planning of the railway-water transportation channel and its trial run. In 2018, the transportation volume of non-self-owned coal in the railway segment was 100.1 million tonnes, reverse transportation volume was 6.67 million tonnes, and transportation volume of non-coal cargo was 15.48 million tonnes. The turnover of cargo transportation offered to external customers in the railway segment throughout the year was 30.7 billion tonne km (2017: 29.4 billion tonne km), representing a year-on-year increase of 4.4%. The revenue generated from transportation services offered to external customers amounted to RMB5,877 million (2017: RMB5,615 million), representing a year-on-year increase of 4.7% and accounting for 15.0% of total revenue of the railway segment (2017: 14.9%).

(2) Progress of projects

In 2018, the Group further expanded its railway transportation coverage. As at the end of the reporting period, the route in Hebei Province has been confirmed, laying the foundation for the construction and completion of the whole line; the special line of Zhugaita Coal Transportation Station (transportation capacity of 10 million tonnes/year) of Shenshuo Railway has been put into operation; the construction of the special railway line of Guojiawan Coal Mine has started; and the connection with self-owned railways of the logistic park and coal loading station was advancing steadily.

(3) Operating results

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

		2018	2017	Change %	Main reasons for changes
Revenue	RMB million	**39,149**	37,586	4.2	Growth in transportation volume of railways brought by the increase in coal sales volume of the Group
Cost of sales	RMB million	**19,915**	18,632	6.9	Increase in transportation turnover of railways, and increase in personnel expenses and external transportation costs
Gross profit margin	%	**49.1**	50.4	Decreased by 1.3 percentage points	
Profit from operations	RMB million	**17,695**	17,675	0.1	
Profit margin from operations	%	**45.2**	47.0	Decreased by 1.8 percentage points	

The unit transportation cost in the railway segment was RMB0.066/tonne km in 2018 (2017: RMB0.064/tonne km), representing a year-on-year increase of 3.1%, mainly due to increase in intermodal transportation cost as a result of increase in on-line rate of external intermodal motor cars; the increase in cost of fuel of certain furnaces along of railways after environmental friendly modification; as well as the increase in personnel expenses.

4. Port Segment

(1) Overview of production and operations

In 2018, the Group made every effort to improve the production and operation efficiency in the port segment to ensure the performance of integrated operation. During the year, the Group achieved the sales of 270.0 million tonnes of seaborn coal (2017: 258.2 million tonnes), representing a year-on-year increase of 4.6%, among which, the sales of seaborn coal through self-owned ports amounted to 238.3 million tonnes (2017: 227.8 million tonnes), representing a year-on-year increase of 4.6%. Though affected by such factors as adverse weather and equipment maintenance and renovation, Huanghua Harbour and Shenhua Tianjin Coal Dock closely connected with the railway, shipping and sales ends, and recorded a historical high in terms of unloading and loading volume. Shenhua Zhuhai Coal Dock gave play to its role as an interchange base, with the inward volume exceeding 20 million tonnes.

By adhering to the concept of green development of the port segment, Huanghua Harbour of the Group successfully dealt with the long-existing industrial problems in the coal port dust pollution and coal-containing sewage treatment, which was fully recognised by the industry and regulatory authorities.

(2) Operating results

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

		2018	2017	Change %	Main reasons for changes
Revenue	RMB million	6,124	5,717	7.1	Increase in seaborne coal sales through self-owned ports
Cost of sales	RMB million	3,511	2,880	21.9	Increase in loading volume of ports; increase in dredging expenses due to adverse weather
Gross profit margin	%	42.7	49.6	Decreased by 6.9 percentage points	
Profit from operations	RMB million	2,325	2,529	(8.1)	
Profit margin from operations	%	38.0	44.2	Decreased by 6.2 percentage points	

The unit transportation cost in the port segment was RMB11.9/tonne in 2018 (2017: RMB10.5/tonne), representing a year-on-year increase of 13.3%, mainly due to increase in dredging fees affected by bad weather.

5. Shipping Segment

(1) Overview of production and operation

In 2018, though affected by such adverse factors as high frequency of extreme weather and fluctuation of transportation volume, the Group continued to strengthen dispatching management and improve shipment turnover efficiency to proactively implement the "quasi-liner shipping" system, and maximised transportation capacity by making full use of ship-shore connection and chartered vessels. During the year, the number of "quasi-liner shipping" vessels increased to 51, through which the coal supply for key customers was effectively guaranteed. The Group took proactive approach to develop external quality customers, with the purposes of improving operating results and enhancing the capability to resist shipping market risks. The shipping volume for transportation service offered to external customers throughout the year accounted for approximately 22.9% of the total shipping volume.

Shipping volume of the shipping segment amounted to 103.6 million tonnes (2017: 93.0 million tonnes), up 11.4% year-on-year; shipment turnover amounted to 89.9 billion tonne nautical miles (2017: 80.4 billion tonne nautical miles), representing a year-on-year increase of 11.8%.

(2) Operating results

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

		2018	2017	Change %	Main reasons for changes
Revenue	RMB million	4,089	3,247	25.9	Rise in shipping price and increase in shipment turnover
Cost of sales	RMB million	3,232	2,472	30.7	Increase in shipping volume; rise in chartering costs as a result of the increase in chartering freight volume; and rise in fuel prices
Gross profit margin	%	21.0	23.9	Decreased by 2.9 percentage points	
Profit from operations	RMB million	723	661	9.4	
Profit margin from operations	%	17.7	20.4	Decreased by 2.7 percentage points	

In 2018, the unit transportation cost of the shipping segment was RMB0.036/ tonne nautical mile (2017: RMB0.031/tonne nautical mile), representing a year-on-year growth of 16.1%, caused by the increase of chartering costs and fuel 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 2018, the production equipment of the coal-to-olefins project had maintained safe, stable and high-capacity operation for 8,164 hours, with the average production capacity reaching 100%, and produced 617,400 tonnes of olefins products in aggregate. The project continued to improve production process to reduce the unit consumption of catalysts, and therefore achieved cost reduction and efficiency improvement.

In 2018, the coal chemical segment consumed 4.1 million tonnes of coal, down by 6.8% from 4.4 million tonnes in the previous year. Fuel coal and feed coal used in the production of the Baotou 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 2018 is as follows:

	2018		2017		Change	
	Sales volume	Price	Sales volume	Price	Sales volume	Price
	Thousand tonnes	*RMB/ tonne*	*Thousand tonnes*	*RMB/ tonne*	*%*	*%*
Polyethylene	**315.4**	**7,442**	324.6	7,373	(2.8)	0.9
Polypropylene	**297.7**	**7,327**	308.8	6,429	(3.6)	14.0

In 2018, Baotou Coal Chemical Company's environmental protection investment was about RMB111 million, mainly for the operations of boiler denitrification, desulfurisation and dust removal facilities and wastewater treatment facilities. Upon the completion of the renovation project of wastewater treatment, the expenses used in disposal of hazardous wastes in the mud-containing biochemical wastewater were significantly reduced. During the reporting period, the coal-to-olefin project met emission standards and there was no major environmental pollution accidents.

The preliminary environmental protection related works of the Baotou-based coal-to-olefins upgrading and demonstration project (the phase II project, being the 750,000 tonnes of coal-to-olefins equipment) was under steady progress.

(2) Analysis of operating results

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

		2018	2017	Change %	Main reasons for changes
Revenue	RMB million	**5,840**	5,681	2.8	Increase in the sales price of olefins products
Cost of sales	RMB million	**4,901**	4,968	(1.3)	Decrease in the production of olefin products
Gross profit margin	%	**16.1**	12.6	Increased by 3.5 percentage points	
Profit from operations	RMB million	**751**	560	34.1	
Profit margin from operations	%	**12.9**	9.9	Increased by 3.0 percentage points	

(3) Unit production cost of main products

	2018		2017		Change	
	Production volume	**Unit production cost**	Production volume	Unit production cost	Production volume	Unit production cost
	Thousand tonnes	***RMB/ tonne***	*Thousand tonnes*	*RMB/ tonne*	*%*	*%*
Polyethylene	**317.1**	**5,905**	327.1	5,861	(3.1)	0.8
Polypropylene	**300.3**	**5,759**	309.7	5,641	(3.0)	2.1

(V) Regional operation analysis

Unit: RMB million

	2018	2017
Revenue from external transactions in domestic markets	**261,330**	245,230
Revenue from external transactions in overseas markets	**2,771**	3,516
Total	**264,101**	248,746

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 2018, the revenue from external transactions in domestic markets was RMB261,330 million, accounting for 99.0% of the Group's operating revenue, representing a year-on-year increase of 6.6%, which was mainly attributable to the year-on-year increase in domestic sales of coal and power. Revenue from external transactions in overseas markets decreased by 21.2% year on year, which was mainly due to the sharp decrease in coal re-export trade volume.

In 2018, in active response to the Belt and Road Initiative of the state, the Company accelerated the pace of internationalisation. The Guohua Sumsel EMM Coal-fired Power Project (Phase I) (2 × 150MW) in Indonesia has been under safe and stable operation for six consecutive years without unplanned operation suspension, breaking the record for the longest continuous operation of double generators in Indonesia. In 2018, the project obtained a number of awards, including the "Best Power Enterprise of the Year (with the capacity above 200MW)" of Indonesian power generation industry; the Jawa-7 Coal-fired Power Project (2 × 1,050MW) was in steady progress, and has obtained an official approval issued by the Ministry of Finance of Indonesia for income tax concession and exemption; all 29 gas wells of the shale gas project in Pennsylvania, the United States were put into operation, and produced a total of 10.863 billion cubic feet (equivalent to 308 million m^3) of China Shenhua's equity gas during the year, showing satisfactory operating performance; and the Watermark Open-pit Coal Mine Project in Australia has completed preliminary design and renewal of exploration right. Other external projects are in progress under the principle of stability and prudence.

(VI) Analysis on Investments

The equity investments of the Company in 2018 amounted to RMB2.049 billion (2017: RMB9.780 billion), representing a year-on-year decrease of 79.0%. Equity investments are mainly used for capital increase in Mengxi-Huazhong Railway Company Limited, Jawa Company and Liuzhou Power.

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 "46. Investment in Subsidiaries" to the Notes to the Financial Statements of this report.

1. Material investment in equity interest

A joint venture company was established with the equities and assets of the relevant coal-fired power generation companies separately contributed by the Company and GD Power. For transaction details of which, please refer to the paragraph headed "Subsequent Event" in this section.

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 financial assets at fair value through profit or loss of the Group were banks' wealth management products due within one year of the Company, interbank certificates of deposit of Shenhua Finance Company, and the derivative financial instruments of Shenhua Finance Lease Company to hedge against the U.S. dollar-denominated liabilities. By the end of 2018, the fair value of derivative financial instruments amounted to RMB5 million.

As at the end of the reporting period, the financial assets at fair value through other comprehensive income of the Group were the non-tradable equity investments amounting to RMB811 million held by the Group that have no significant impact on the investee. In 2018, the changes in fair value of other investments in equity instruments before income tax amounted to RMB66 million.

Details regarding the amounts of and changes in the financial assets/liabilities at fair value of the Group in 2018 are as follows:

Unit: RMB million

Name of items	Opening balance at the beginning of the period	Closing balance at the end of the period	Change for the current period	Change of Profit for the current period
Banks' wealth management products	0	30,000	30,000	21
Interbank certificates of deposit	0	2,447	2,447	12
Derivative financial (liabilities) assets	(12)	5	17	17
Derivative financial assets [note]	56	0	(56)	(2)
Other investments in equity instruments	749	811	62	0
Entrusted wealth management products	52	0	(52)	0
Brokers' wealth management products	105	0	(105)	6

Note: It represents the thermal coal futures completed by the Group in January 2018.

(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 2018			2018	2017	Change %	Main reasons for changes
1	Shendong Coal Group	**4,989**	**37,516**	**24,945**	**15,397**	15,587	(1.2)	
2	Shuohuang Railway Company	**5,880**	**42,270**	**35,544**	**7,492**	7,596	(1.4)	
3	Jinjie Energy	**2,278**	**10,402**	**8,624**	**3,241**	3,014	7.5	
4	Zhunge'er Energy Company	**7,102**	**38,451**	**30,942**	**3,146**	3,283	(4.2)	
5	Shenhua Trading Group	**1,889**	**18,852**	**9,288**	**2,850**	1,772	60.8	Increase in the sales and gross profit margin of purchased coal
6	Shenbao Energy Company	**1,169**	**7,608**	**4,784**	**1,274**	936	36.1	Increase in coal sales price
7	Huanghua Harbour Administration Company	**6,790**	**15,136**	**9,962**	**1,213**	1,513	(19.8)	
8	Baotou Energy Company	**2,633**	**6,088**	**5,052**	**1,165**	742	57.0	Increase in coal sales volume
9	Railway Transportation Company	**4,803**	**21,993**	**7,390**	**965**	1,079	(10.6)	
10	Shenhua Finance Company	**5,000**	**95,823**	**9,032**	**947**	858	10.4	

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 Group recorded a revenue of RMB59,714 million and a profit from operations of RMB18,277 million in 2018.

(3) Shuohuang Railway Company recorded a revenue of RMB19,748 million and a profit from operations of RMB10,095 million in 2018.

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.

(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	Vice chairman
4	Zhang Ying	Executive director
5	Xu Shancheng	Non-executive director
6	Du Shengli	Independent director
7	Zhang Donghui	Employee director

Note: Due to retirement, Ms. Zhang Kehui, the Chairman and Mr. Han Weiping, the executive director are currently undergoing the legal procedures for their resignation.

Ms. Mei Xueyan, vice chairman, has served as a director of Shenhua Finance Company since January 2005, the general manager of Shenhua Finance Company since July 2006, the secretary to the Party Committee of Shenhua Finance Company since August 2014 and the deputy secretary to the Party Committee (general manager level) of Shenhua Finance Company since January 2017, the vice chairman and deputy secretary to the Party Committee (general manager level) of Shenhua Finance Company since February 2018, and the vice chairman and secretary to the Party Committee of Shenhua Finance Company since October 2018. 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 Shenhua Finance Company and possesses extensive management experience.

Mr. Xu Shancheng, non-executive director, serves concurrently as the chief financial officer of the Company. Please refer to the section headed "Directors, Supervisors, Senior Management and Employees" of this report for his biographical details.

Mr. Du Shengli, independent director, is an associate professor of Tsinghua University School of Economics and Management. He has multiple 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 multiple years of experience as independent director.

Ms. Zhang Donghui, employee director, participates in the decision-making of Shenhua Finance 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 2018, 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/connected transactions of the company, including identification, statistics, forecasts, reporting, limit management and recommendations in respect of the related party/connected transactions.

In 2018, 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 2018, the Risk Management Committee held two meetings.

(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 2018, the Audit Committee held two meetings.

(2) Risk Management and Internal Control

A. Risk Management

In 2018, Shenhua Finance Company carried out risk management related works in a smooth and orderly manner, with no occurrence of material risk events. The company mainly accomplished the following risk management related works: ① comprehensive risk investigation; ② rectification according to regulatory opinions, further improvement of corporate governance mechanism and continuous promotion of the level of risk management refinement; ③ legal compliance on an on-going basis; ④ quarterly risk monitoring to ensure that the relevant risks can be prevented or controllable; ⑤ improvement of risk management system; ⑥ performance of duties of the risk management committee with continuous improvement of its risk management capability.

B. Internal Control

In 2018, Shenhua Finance Company continued to optimise its internal control system by conducting an independent and comprehensive assessment of the soundness, rationality and effectiveness of the internal control system as a whole, which was conducive for the company to achieve such internal control objectives as legal compliance of its operation and management, asset security, truthfulness and completeness of financial reports and relevant information, improvement of operational efficiency and operating results, and implementation of corporate development strategies. The company also analysed objectively the current status of the internal control system and made timely improvement to meet the demands for corporate development.

(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 2018	As at 31 December 2017	Change %
Balance of deposits	**86,129**	68,903	25.0
Balance of loans	**34,945**	30,403	14.9
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 2018
1	China Shenhua Energy Company Limited	55,986
2	Shenhua Ningxia Coal Industry Group Co., Ltd.	5,712
3	China Energy Investment Corporation Limited	3,411
4	Shenhua Guoneng Group Co., Ltd.	3,115
5	Shenhua Wuhai Energy Co., Ltd.	2,375
6	Beijing Guohua Power Company Limited	2,303
7	China Shenhua Coal Liquefaction and Chemical Company Limited	2,125
8	China Energy Group Coke Company Limited	2,054
9	China Shenhua International Construction Company Limited	1,779
10	Shenhua Renewables Co., Ltd.	1,573

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 2018
1	Shenhua Zhunchi Railway Company Limited	6,680
2	Shenhua Xinzhun Railway Co., Ltd.	3,470
3	Shenhua Ningxia Coal Industry Group Co., Ltd.	3,000
4	China Energy Investment Corporation Limited	3,000
5	State Grid Energy Hami Coal and Electricity Co., Ltd.	2,340
6	Shenhua Bayannur Energy Co., Ltd.	2,127
7	Shenhua Yili Energy Co., Ltd.	1,974
8	Shenhua Ganquan Railway Co., Ltd.	1,854
9	Shenhua Guoneng Jiaozuo Power Plant Company Limited	1,390
10	Inner Mongolia Guohua Hulunbei'er Power Generation Co., Ltd.	1,033

C. Approval of loans during the reporting period

Unit: RMB million

Item	2018
Amount of contracted loans	**11,066**
Amount of granted loans (including discounted assets) Note	**8,944**
Of which: amount of guaranteed loans (including discounted assets) Note	**0**
Amount of rejected loans	**0**

Note: The amount of granted loans refers to the balance as at 31 December 2018 of the loans granted in the current year in connection with the loans contracts signed in 2018.

(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 2018 ESG Report of the Group for information in respect of environmental protection of the Company.

The Group attaches great importance to tackling climate change. In 2018, the Group made great efforts to address climate change, mainly including improving the assessment system of annual operating performance for carbon emission and compiling the Carbon Emission Regulations and other model regulations for power plants. With actively participation in the establishment of the national carbon market, the Company specified the administration principles, namely "unified management, unified auditing, unified development, unified transaction", for carbon trading and carried out practical trainings for coal-fired power enterprises, resulting in the performance of duties in due course by all nine power plants in the carbon trading pilot market. The "100,000t level whole-flow demonstration project of capture and storage of carbon dioxide" operated by Jinjie Energy Plant achieved stage progress.

(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 2018. 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 2018, there was no material and significant dispute between the Group and its customers, suppliers and other business partners.

(XIII) Subsequent Events

1. As approved at the ninth meeting of the fourth session of the Board and the first extraordinary general meeting of 2018, a joint venture company was established with the equities and assets (the "Subject Assets") of the relevant coal-fired power generation companies separately contributed by the Company and GD Power (the "Transaction"). On 3 January 2019, the joint venture company has completed registration at Xicheng Bureau of Beijing Administration for Industry and Commerce and has obtained business license. For details, please refer to the H share announcement of the Company dated 4 January 2019 and the A share announcement of the Company dated 5 January 2019.

   Pursuant to the Agreement on Establishment of the Joint Venture Company by way of Assets Reorganizations entered into between China Shenhua Energy Company Limited and GD Power Development Co., Ltd., the Completion Date is the last day of the month in which the completion date of commercial and industrial registration of the joint venture company falls, i.e. 31 January 2019. From the Completion Date, the joint venture company assumes the corresponding rights and the liabilities of the Subject Assets. For details, please refer to the H share announcement of the Company dated 31 January 2019 and the A share announcement of the Company dated 1 February 2019, as well as "45. Events after the Reporting Period" to the Notes to the Financial Statements of this report.

2. On 30 January 2019, the Company received a confirmation document on the share transfer registration from China Securities Depository and Clearing Corporation Limited forwarded on by China Energy confirming that the transfer registration of the state-owned shares has been completed. After this transfer for nil consideration, China Energy holds 13,812,709,196 A shares, representing approximately 69.45% of the share capital of the Company; Beijing Chengtong Financial Control Investment Co., Ltd. holds 358,932,628 A shares, representing approximately 1.805% of the share capital of the Company; Guoxin Investment Co., Ltd. holds 358,932,628 A shares, representing approximately 1.805% of the share capital of the Company. For details, please refer to the H share announcement of the Company dated 30 January 2019 and the A share announcement of the Company dated 31 January 2019.

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

(I) Competition and Development Trend in the Industry

1. Macro economy

In 2018, China faced a complicated and challenging domestic and international situation in development which was rarely seen in many years, and there were new economic downward pressure. The Chinese people of all ethnic groups, guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, forged ahead and overcame difficulties, having accomplished main targets for economic and social development of the year. The operation of domestic economy was kept within a reasonable interval and economic structure was further improved. In 2018, the GDP increased by 6.6% year on year, the CPI increased by 2.1% year on year, and the PPI increased by 3.5% year on year.

In 2019, despite a more complex and severe development environment, China is still at the period for strategic opportunities with sufficient perseverance, great potential and continuous innovation. The long-term upward trend of the Chinese economy is expected to remain unchanged. Adhering to the general work tone of "seeking progress while maintaining stability", focusing on new concepts for development and sticking to the promotion of high-quality development, Chinese government will comprehensively push forward various works and keep the operation of China economy within a reasonable interval. The GDP growth will be around 6%-6.5%, and the rise in the CPI will be controlled at approximately 3%.

2. Market environment of the coal industry

(1) Thermal coal market in the PRC

Review of 2018

In 2018, the domestic coal market generally showed the characteristics of neither slack in weak season nor booming in peak season. As of 31 December 2018, the Bohai Bay Thermal Coal Price Index (5,500 kcal) was RMB569/tonne, and the annual average price was RMB571/tonne, down 2.4% over the same period of last year. Affected by policies, expectation, seasonality and other factors, the spot price fluctuated widely within the interval of RMB570–770/tonne.

	2018	Year-on-year change %
Raw coal output *(million tonnes)*[2]	**3,680**	4.5
Coal import *(million tonnes)*	**281.2**	3.9
Coal transportation by railway *(million tonnes)*	**23.8**	10.4

[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 form sources such as the National Bureau of statistics, China Coal Market Network, China Coal Resources Network, China Electricity Council, and China Coal Transportation & Sales Society etc.

[2] Source of data: Statistical Communiqué on the 2018 National Economic and Social Development by the National Bureau of Statistics of China.

In respect of the supply side, with the continuous improvement of policies such as the replacement of coal production capacity, the high-quality production capacity has been continuously released, and the production of raw coal has gradually recovered. The raw coal production in 2018 was 3.68 billion tonnes, representing a year-on-year increase of 4.5%, among which, the raw coal production of Inner Mongolia was 930 million tonnes, representing a year-on-year increase of 8.7%; the raw coal production of Shanxi was 890 million tonnes, representing a year-on-year increase of 3.7%; and the raw coal production of Shaanxi was 620 million tonnes, representing a year-on-year increase of 13.4%.

The import volume of coal continued to grow, and the total import volume of coal throughout the year amounted to 280 million tonnes, representing a year-on-year increase of 3.9%, demonstrating a slight decline over 2017.

In respect of the demand side, total consumption of coal increased by 1%, continuing the positive growth since 2017, and was concentrated in the power and chemical industries, showing a trend of stable quantity and structural optimization. The coal consumption in the power and chemical industries recorded significant increase, the coal consumption in the steel and building materials industries recorded steady increase, and the coal consumption in other industries and residents has continued to decrease. The coastal coal supply channel was smoother, the Daqin line and the Shuohuang line were operating at a high level, and the capacity of Mengji line continued to be released. The coal transportation volume through railways in China was 2,380 million tonnes, representing a year on year increase of 10.4%. The volume of coal shipment through major ports in China was 748 million tonnes, representing a year-on-year increase of 3.0%. Mid-stream and downstream were eager to hold inventory, while the annual inventory of northern ports, southern ports and key power plants has increased significantly.

Prospects for 2019

In 2019, despite a more complex and severe economic development environment in China, it is expected that the economy in China will continue to operate within a reasonable interval, providing energy consumption with certain support. The energy consumption of non-fossil energy in the overall society is growing rapidly. The coal consumption is expected to be basically stable. In 2019, the coal production capacity will continue to be released, while affected by the increasingly stringent safety and environmental protection inspections, the coal production growth is expected to be limited in 2019.

The import volume of coal will be basically stable in 2019 over the previous year.

Overall, the supply and demand of coal are expected to be balanced in 2019. However, subject to uncertainties, including resource conditions and transportation constraints, there may be structural tight or loose supply in some periods and regions.

(2) Thermal coal market in the Asia Pacific region

Review of 2018

The global energy structure adjustment continued to be pushed ahead, and non-fossil energy maintained a rapid growth. Coal production and consumption in Western Europe and the United States continued to decline, and the focus of coal trade continued to tilt towards the Asia-Pacific region.

In 2018, coal imports of Japan, South Korea and Taiwan in East Asia remained basically stable, while the coal consumption along the "Belt and Road" countries, especially in Southeast Asia and South Asia, has increased significantly. Coal imports volume of India, Thailand, Vietnam and other countries have grown by more than two digits. In 2018, the global coal supply saw an increase, and exporting countries continued to be focused on Indonesia, Australia, and Russia. Among them, Indonesia exported 540 million tonnes of coal, up 10.5% year on year, the coal export of Russia increased by 3.4%, and the coal export of Australia increased by 2.6%.

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 decrease from USD104.94/tonne early the year to USD101.38/tonne, with the annual average price increasing by 21.3% year on year.

Prospects for 2019

In 2019, affected by various factors such as changes in the world economic structure, trade friction, and global response to climate change, the downward pressure on the world coal market will increase. In particular, the coal production and sales are expected to further shrink in Europe and the United States. At the same time, developing countries in Asia will continue to be the mainstay of new coal demand due to their economic and technological conditions, providing support for global coal demand and prices.

In 2019, due to the reduction of low-cost resources of Indonesian coal and the increase in domestic consumption, the export volume will decline slightly. The export volume of Russia, Mongolia and other countries will increase, and the supply of Australia will remain stable. In 2019, it is expected that the global coal market will show a balance in supply and demand. Thermal coal price will fluctuate with seasonal changes.

3. Market environment of the power industry

Review of 2018

In 2018, the power industry in the PRC featured a sufficient supply and demand. The total electricity consumption was 6,844.9 billion kWh, representing a year-on-year increase of 8.5%, and increasing by 1.9 percentage points as compared with that of last year. Among them, the electricity consumption in the first industry, secondary industry and third industry increased by 9.8%, 7.2% and 12.7% year on year, respectively, and the electricity consumption in urban and rural residents increased by 10.4% year on year.

The power generation in the PRC maintained at a relatively high level, representing a year on year increase of 8.4%, and increasing by 1.8 percentage points. Thermal power generated 4,923.1 billion kWh, representing a year on year increase of 7.3% and accounting for 70.4% of the power generation in the PRC. Power generation of hydropower increased by 3.2% year on year, accounting for 17.6% of the power generation in the PRC. Power generation of nuclear power, on-grid wind power and on-grid solar power increased by 18.6%, 20.2% and 50.8% year on year, respectively, and continued to maintain rapid growth.

In 2018, the average utilization hours of power generation equipment of power plants with capacity of 6,000 kW and above in the PRC was 3,862 hours, increasing by 73 hours year on year. Among them, the average utilization time of thermal power equipment was 4,361 hours, increasing by 143 hours year on year. The average utilization time of hydropower equipment was 3,613 hours, increasing by 16 hours year on year.

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 2018, the installed capacity of power plants was 1.90 billion kW in China, increasing by 6.5% as compared to that at the beginning of the period. The installed capacity of thermal power was 1.14 billion kW (including 1.01 billion kW of coal-fired, 83.3 million kW of gas-fired), accounting for 60.2% of the total installed capacity, and decreasing by 2 percentage points from the end of 2017. In 2018, the newly added installed capacity was 124.39 million kW, including 8.54 million kW of hydropower, 41.19 million kW of thermal power, 8.84 million kW of nuclear power, 21 million kW of on-grid wind power, and 44.73 million kW of on-grid solar power.

Prospects for 2019

Taking such factors as the macroeconomic situation, electricity consumption and the replacement of electric energy in service industries and urban residents into consideration, it is expected that the power consumption in the PRC will increase slightly in 2019, but alternative energy sources such as natural gas, nuclear power, photovoltaics and wind power will continue to maintain rapid growth, affecting the growth space for thermal power generation. With the continuous deepening of reform of the power system, opening up of market, and the innovation and diversification of trading methods, the total trading volume of power continues to grow, and the downward pressure on electricity prices still exists.

(II) Development Strategy of China Shenhua

The Company considers "Establishing the flagship company of China Energy Group and building a first-class comprehensive and competitive energy group in the world" as its strategic objective, it will continue to adhere to its advantages of unified operation, continuously improve the efficiency of integrated operations, achieve innovative development and high-quality development, and strive to achieve world-class scale, world-class benefits, world-class innovation, world-class management, world-class culture, and world-class Party construction.

(III) Business Targets for 2019

Item	Unit	Target of 2019 note	Actual amount in 2018	Increase/ (decrease) %
Commercial coal production	100 million tonnes	**2.9**	2.966	(2.2)
Coal sales	100 million tonnes	**4.27**	4.609	(7.4)
Power output dispatch	100 million kWh	**1,431**	2,675.9	(46.5)
Revenue	RMB100 million	**2,212**	2,641.01	(16.2)
Cost of sales	RMB100 million	**1,441**	1,736.77	(17.0)
Selling, general and administrative expenses (including research and development costs), net finance costs	RMB100 million	**135**	149.75	(9.8)
Percentage change of unit production cost of the self-produced coal	/	**Year-on-year increase of no more than 5%**	Year-on-year increase of 7.6%	/

The transaction of establishing a joint venture company with the equities and assets (the "Subject Assets") of the relevant coal-fired power generation companies separately contributed by the Company and GD Power had been completed on 31 January 2019. Since the Completion Date, the Subject Assets contributed by the Company has ceased to be included in the consolidated financial statement of the Company. Therefore, the relevant data on such assets will not be included in the business objectives of the Group for 2019.

The above business targets are subject to factors including changes in scope of consolidated financial 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 explanation of conditions under which the Company's profit attributable to equity holders of the Company in the first quarter of 2019 is expected to reach a year-on-year change of 50% or above:

☐ Applicable ✔ Not applicable

(IV) Capital expenditure plan for 2019

Unit: RMB100 million

	Target of 2019	Actual amount in 2018
1. Coal segment	**60.7**	51.3
2. Power segment	**91.2**	129.2
3. Transportation segments	**107.8**	48.8
Of which: Railway	**95.5**	37.4
Port	**11.4**	11.3
Shipping	**0.9**	0.1
4. Coal chemical segment	**11.6**	0.7
5. Others	**0**	2.1
Total	**271.3**	232.1

Note: The relevant data on the power plants of the Company to establish a joint venture company with GD Power is not included in the capital expenditures plans for 2019.

Total capital expenditure of 2018 amounted to RMB23.21 billion, which were mainly used for coal-fired power plants, Huangda Railway construction and mining equipment purchase.

Based on the principles of strict control of investment and focusing on quality and efficiency, the Board of the Company approved a total planned capital expenditure of 2019 of RMB27.13 billion (excluding equity acquisition). In terms of the capital expenditure on the coal segment, approximately RMB2.45 billion will be used for infrastructure, such as coal mine projects, construction of concentrated transportation stations and equipment purchase, and approximately RMB3.28 billion will be used for technological transformation. In terms of the capital expenditure on the railway segment, approximately RMB6.76 billion will be used for infrastructure, such as the construction of Huangda Railway, 300 million-tonne production capacity expansion project of Shenshuo Railway and equipment purchase, and approximately RMB2.64 billion will be used for technological transformation. In terms of the capital expenditure on the power segment, approximately RMB7.43 billion will be used for infrastructure, such as project construction, and approximately RMB1.64 billion will be used for technological transformation.

The capital expenditure plans of the Group in 2019 are subject to the development of business plans (including potential acquisitions), progress of capital projects, market conditions, outlook for future operation environment and the obtaining of the requisite permissions and approval documents. Unless required by laws, the Company shall not assume any responsibilities for updating the data of its capital expenditure plans. The Company intends to finance its capital expenditures by cash generated from operating activities, short-term and long-term borrowings, and other debt and equity financing.

(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 macro economy. Currently, with complex and severe external environment, there have been economic downward pressure and increased pressure on economic structure adjustment. The state will further push forward the supply-side reform of the coal industry, and proactively phase out backward production capacity in the coal industry with premium production capacity, so as to achieve the replacement of old drivers of growth with new ones. 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 macro-control policy and relevant industrial trends, take the initiative to make pre-adjustment, promote high-quality development by taking the supply-side structural reforms as paramount, make great efforts to push scientific innovation and progress, and continue to implement strategies of green energy.

2. Risk of market competition

In 2018, the domestic coal market featured with stable supply and demand, steady increase in utilisation rate of coal production capacity, and the increase in effective production capacity of coal. In 2019, the coal market is expected to maintain a generally balanced supply and demand. The total power consumption in 2018 was 6.8 trillion kWh, representing a year-on-year increase of 8.5%. It is estimated that the future power market will feature with overall supply-demand balance, and the proportion of planned power generation will decrease year by year, which indicate that market competition will intensify. The state has increased the construction of cross-provincial coal transportation railway channels, and local coal transportation railways have been putting into operation or under expansion. The coal transportation capacity will be gradually released, and the transportation formats tends to be diversified.

In response to the risks of market competition, the Group will improve the accuracy of the pre-judgment to coal market, strictly implement long-term contracts, enhance quality control, develop brand advantage, and strengthen the development of new markets, maintenance of existing markets and construction of interchange bases to arrange transportation and sales in a balanced manner. It will also further conduct quality improvement and efficiency enhancement in the power industry and conduct risk pre-control, production safety and trading in the power market in accordance with laws and regulations; the Company actively participated in investment in coal flowing channels of national railways, increased the collection and distribution capacity of railways owned by the Company and kept improving the core competitiveness of transportation of the Company.

3. Risk of changes in industry policies

The Group's business activities are subject to the industrial regulatory policies in China. The supply-side structural reform of the coal industry has been pushed forward into a more difficult phase with increasing difficulty in resolving issues such as personnel settlement and liability disposal. In addition, speeding up the release of premium production capacity, optimising the transportation layout in the coal industry and ensuring coal supply have become the focuses of policy formulation in recent years. 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 environmental protection.

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, there is a trend of continuous rise in material and labour costs, and the increasingly stringent regulations are imposed by the state on resource acquisition and environmental protection, which 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; promote the normalisation of cost benchmarking work and carry out in-depth cost reduction and efficiency promotion, so as to consolidate the Group's advantage on cost.

5. Risk of environmental protection

Given the facts that national policies on energy-saving and environmental protection have been further tightened, local standards on ultra-low emissions are even stricter than national standards, operating costs of enterprises are increased due to the levy of environmental tax, and the demand for better ecological environment puts more stringent requirements on the development and operation of enterprises, 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 insists on strengthening its soft power of environmental protection and upgrading relevant facilities, as well as ensure capital investment to actively carry 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 on an on-going basis. It continues to identify environmental hidden dangers, 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 production safety 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, innovative mechanism of safety supervision, all-round promotion of safety management ability, and consolidation of production safety 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 part, 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

Affected by multiple factors including the complex international political, economic, social and religious environments, diverse legal systems among different countries, fluctuations in exchange rates, stricter environmental protection requirements, and intensified trade conflicts among certain countries, there may be ups and downs as well as fluctuations in the future international trades and economic situations. 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 further carry out overseas resource evaluation, operation performance evaluation and technology assessment based on sound information collection, analysis and research prior to making any decision on overseas project investment so as to ensure economic and technological 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, improve major disaster prevention and control technologies and rescue system, 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) *RMB*	Amount of cash dividend (inclusive of tax) *RMB million*	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 *RMB million*	Percentage to the net profit attributable to equity holders of the Company in the consolidated financial statements *%*
Final dividend for year 2018 (Proposed)	8.8	17,503	43,867	39.9
Final dividend for year 2017	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

Net profit for the year attributable to equity holders of the Company for 2018 under the Accounting Standards for Business Enterprises amounted to RMB43,867 million, with basic earnings per share of RMB2.205/share; profit for the year attributable to equity holders of the Company under the International Financial Reporting Standards amounted to RMB44,137 million, with basic earnings per share of RMB2.219/share. As at 31 December 2018, the retained earnings available for distribution to shareholders of the Company under the Accounting Standards for Business Enterprises amounted to RMB132,711 million.

The Board of the Company recommends the payment of a final dividend for year 2018 in cash of RMB0.88 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 2018, totaling RMB17,503 million (inclusive of tax), which represents 39.9% of the net profit for the year attributable to equity holders of the Company under the Accounting Standards for Business Enterprises and 39.7% 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 2018 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 2018, the Board has attended to and considered the opinions and concerns of the shareholders of the Company. The Company will hold the 2018 annual general meeting on Friday, 21 June 2019 to consider the relevant resolutions, including the above dividend plans as proposed by the Board.

3. The final dividend for year 2018, 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 2018 and annual general meeting of the Company, the final dividend for year 2018 for the Company's H shareholders are estimated to be distributed on or about 9 August 2019. 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, 22 May 2019, 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 2018 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 2018 to holders of A shares (including the Northbound Shareholders) after the 2018 annual general meeting to determine the record date, ex-rights date and dividend distribution date for the distribution of final dividend for year 2018 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 2018 annual general meeting	22 May 2019 (Wednesday)	21 June 2019 (Friday)	21 May 2019 (Tuesday) 4:30 p.m.	Computershare Hong Kong Investor Services Limited
2	Entitled to the final dividend for year 2018	29 June 2019 (Saturday)	5 July 2019 (Friday)	28 June 2019 (Friday) 4:30 p.m.	Computershare Hong Kong Investor Services Limited

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 2018 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 5 July 2019.

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 5 July 2019 as the criterion in determining the residence of the individual shareholders of H shares who are entitled to receive the final dividend for year 2018 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 28 June 2019 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 COMMITMENT

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	China Energy (originally Shenhua Group Corporation)	The two parties entered into a "Non-competition Agreement" on 24 May 2005 and a "Supplemental Agreement to the Existing Non-Competition Agreement" on 1 March 2018. As an integrated platform which was responsible for the coal business and affiliated to China Energy, China Energy has committed not to compete with the Company in respect of the Company's principal businesses (coal exploration, mining, processing, sales; production and sales of comprehensive utilization of coal products; development and management of coal products; railway transportation; port transportation; the industry and systematic service related to the business aforementioned) whether inside or outside of the PRC, and granted the Company options and pre-emptive rights to acquire and be transferred from China Energy any business opportunities and assets which may pose potential competition.	24 May 2005, long-term	Yes	Yes, in progress	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 ("Original Undertaking Assets") before 30 June 2019 (submitting the asset acquisition proposal to the internal competent authorities of China Shenhua for approval procedure). 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 100% equity of Ningdong Power, 100% equity of Xuzhou Power and 51% equity of Zhoushan Power in 2015. The Company did not make any acquisitions of assets in 2018.

Being the parent company subsequent to the restructuring, China Energy merged with China Guodian by the way of absorption. As approved in the ninth board meeting of the fourth session of the Board and the 2018 first EGM of the Company, the Company entered into the Supplemental Agreement to the Existing Non-Competition Agreement with China Energy. It is agreed by both parties that other than the amendments in the Supplemental Agreement to the Existing Non-Competition Agreement, the clauses of the Existing Non-competition Agreement will not be changed.

Pursuant to the Supplemental Agreement to the Existing Non-competition Agreement, within five years after the completion of China Energy merging with China Guodian by way of merger by absorption, the Company will discretionally exercise the Options and the Pre-emptive Rights to acquire the assets within the retained businesses, and will no longer commence the acquisition before 30 June 2019 as stated in the 2014 Non-Competition Undertakings. The retained business refer to (1) original committed assets (excluding the completed acquisition of three equity assets by the Company in 2015) other than the assets of Conventional Power Generation Business and (2) the unlisted businesses held by China Guodian which directly or indirectly compete with the core businesses of the Company (excluding the relevant assets that China Guodian undertook to inject into its subsidiary Inner Mongolia Pingzhuang Energy Co., Ltd., in 2007). 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

For the new and revised International Financial Reporting Standards initially applied by the Group in 2018 and their respective impact, please refer to Note 2 to financial statements of this report.

(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)*	9.0
Term of Auditing of Domestic Auditors of the Company *(year)*	6
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)*	6

On 22 June 2018, 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 2018 at the Company's 2017 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

In 2018, the above two auditors did not serve as the external auditors of several subsidiaries of the Company and did not provide non-audit services to the Company and its controlled subsidiaries.

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 2018, the Group was the plaintiff, defendant or the party of certain non-material litigations and arbitration. 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

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 approved at the 2018 first EGM, the Group and China Energy Group have entered into a Mutual Coal Supply Agreement and a Mutual Supplies and Services Agreement with a revision of annual caps for mutual agreement for the year of 2018 and 2019 in light of the merger of China Guodian by China Energy by the way of absorption, as well as the satisfaction of the needs of additional daily related/connected transaction arising from the Joint Venture Company consisting of equities and assets of the relevant coal-fired power generation companies held by the Group and GD Power. For details, please refer to the H share announcement of the Company dated 27 April 2018 and the A shares announcement of the Company dated 28 April 2018.

In August 2018, the merger of China Guodian by way of absorption by China Energy, the controlling shareholder of the Group, has completed. As a result, the former China Guodian and its subsidiaries constitute related parties/connected persons of the Company as defined under the Shanghai Listing Rules and the Hong Kong Listing Rules.

As of 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 China Energy 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 Group, China Energy and its subsidiaries 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 China Energy. 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 China Energy 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; For certain types of coal, the Company might not be able to receive any quotation(s) of enterprises with comparable quality, quantity and location. In case the Company is able to obtain a relevant quotation with comparable quality, quantity and location, then the Company would be able to obtain a comparable quotation and adopt the best price available;

(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 China Energy. 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 China Energy Group mutually sells and provides various types of products and services.

The pricing of the products and services provided under the 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 of the same or similar 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 China Energy (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 China Energy. 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 China Energy Group through Shenhua Finance Company.

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

(1) the interest rates for deposits placed by members of China Energy Group with Shenhua Finance Company shall be 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 determined by major commercial banks for the same type of deposit provided to members of China Energy Group, and shall be determined on normal commercial terms;

(2) the interest rates for loans granted by Shenhua Finance Company to members of China Energy Group shall be 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 determined by the major commercial banks for the same type of loan provided to members of China Energy Group, and shall be determined on normal commercial terms; and

(3) the service fees charged by Shenhua Finance Company for the provision of the financial services to members of China Energy Group shall be 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 shall be with reference to the fee rates charged by major commercial banks for comparable financial services provided to members of China Energy Group, and shall be determined on normal commercial terms.

2. **Non-exempt continuing 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.

E. The Continuing Connected Transactions Framework Agreement between the Company and China Railway Corporation

China Railway Corporation ("China Railway") is a controlling shareholder of regional railway bureau including Taiyuan Railway Bureau, therefore China Railway constituted a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Continuing Connected Transactions Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 26 December 2018, the Company and Taiyuan Railway Bureau entered into a Continuing Connected Transaction Framework Agreement. The Continuing Connected Transactions Framework Agreement came into effect on the signing date and valid until 31 December 2019. In accordance with the Continuing Connected Transactions Framework Agreement, the Group, China Railway and its subsidiaries (excluding Taiyuan Railway Bureau and its subsidiaries) (the "China Railway Group") have agreed to provide transportation service, supply coal and provide other products and services to the Group, in which excluded rolling stock usage, overhaul services, equipment supply, business consulting, technical services, and railway track maintenance services.

The pricing of the transactions under the Continuing Connected Transactions Framework Agreement shall be agreed in the implementation agreements, but shall be determined in accordance with the general principles and order of this section:

(a) The price of transportation service mutually provided by the China Railway Group and the Group shall be determined in the following priority:

(i) the prices as determined by the government;

(ii) if the prices are not specified by the government, the prices will be determined in accordance with the pricing standards and rules of national railways within the guidance prices set by the government;

(iii) if the prices are not specified by the government and the government has not set applicable guidance prices, the prices shall be determined in accordance with the applicable industry price settlement rules;

(iv) except for applying the prices specified by the government, the guidance prices set by the government and the industry settlement rules, if there are comparable market prices or pricing standards, priority shall be given to such market prices or pricing standards as reference to determine the prices upon negotiation;

(v) if none of the above-mentioned pricing standards is available, the prices shall be determined with reference to the prices of non-connected transactions between the connected parties and independent third parties;

(vi) if neither comparable market prices nor prices of non-connected transactions are available for reference, the prices shall be determined upon negotiation according to the aggregate of the total actual costs for providing the relevant services, reasonable profits and taxes and additional charges paid.

(b) The price of coal mutually supplied by the China Railway Group and the Group 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 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:

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

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

(iii) the current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with comparable 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 made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on the website of 中國煤炭市場網(www.cctd.com.cn) organised by China Coal Transportation & Sale Society (《中國煤炭運銷協會》) in the PRC; (ii) the sale price of local large coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of one or more other enterprises with comparable quality, quantity and location (if any);

(iv) the quality of the coal;

(v) the quantity of coal; and

(vi) the estimated transportation fees.

(c) The price of other products and services mutually provided by the China Railway Group and the Group shall be determined in accordance with the general principles and order of this section:

(i) 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;

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

(iii) 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

(iv) 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:

(i) Rolling stock usage: agreed price (cost plus a profit margin of approximately 5%).

(ii) Overhaul services and railway track maintenance services: the price is negotiated and agreed by the parties on the basis of the unit price that the China Railway Group agreed with third parties in the previous year or the same year.

(iii) Equipment supply: tender and bidding price.

(iv) Business consulting and technical services: market price.

The agreements A to C above are daily related transactions under the Shanghai Listing Rules, while the agreements A to E 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

In 2018, the implementation of the agreements A to E above is set out in the table below. Since September 2018, China Energy Group, the Group's related/connected person, includes Guodian Group. The total amount of related/connected transactions for sale of products and provision of services by the Group to China Energy Group during the reporting period amounted to RMB25,667 million, which accounted for 9.7% 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 related/connected persons by the Group and other outflows		
		Prevailing transaction cap *RMB million*	Transaction amount during the reporting period *RMB million*	Proportion in the same type of transactions *%*	Prevailing transaction cap *RMB million*	Transaction amount during the reporting period *RMB million*	Proportion in the same type of transactions *%*
A	Mutual Coal Supply Agreement	65,500	18,708	12.0	20,700	8,608	15.3
B	Mutual Supplies and Services Agreement	13,000	6,959	-	23,500	3,590	-
	including: (1) Products		6,639	6.9		1,942	3.3
	(2) Services		320	2.5		1,648	6.2
D	Transportation Service Framework Agreement	1,700	320	4.9	14,000	4,336	26.1
E	Continuing Connected Transactions Framework Agreement	4,949	2,241	1.4	8,041	5,874	4.5

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 members of China Energy Group	4,420	0
		(2) Annual total transaction amount of bill acceptance and discount services	10,400	67
		(3) Maximum daily balance (including interests accrued thereon) of deposits placed by members of China Energy Group	58,500	30,674
		(4) Maximum daily balance of loans, consumption credit, buyer's credit and financial leasing (including relevant accrued thereon) granted to members of China Energy Group	28,600	16,301
		(5) Maximum daily balance (including interests accrued thereon) of entrusted loans granted by China Energy and its subsidiaries to the Company and/or its subsidiaries through Shenhua Finance Company	13,000	913
		(6) Annual total fee charged for providing the members of China Energy Group with consultancy, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, acceptance of bill and other financial services	221	24

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 E 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 continuing connected transactions under the agreements A to E 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) were not approved by the Board; (2) were not conducted according to the Company's pricing policy in terms of all material aspects; (3) were not conducted according to the terms of the relevant agreements in terms of all material aspects; and (4) occurred an aggregate amount for the year ended 31 December 2018 that 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 44 of the financial statements for the year 2018 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" 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 44 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. Daily related transaction between the Group and Guodian Group prior to the Merger of 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) received from SASAC on 28 August 2017, after Shenhua Group Corporation was renamed as China Energy Investment Corporation Limited, it will merge with China Guodian Corporation by way of merger by absorption of China Guodian Corporation (the "Merger of Group Companies").

According to the Shanghai Listing Rules and the "Guidelines of the Shanghai Stock Exchange on Related Transactions", since 28 August 2017, Guodian Group is considered as the related parties of the Company. From January to August 2018, prior to the completion of the Merger of Group Companies, the Group's daily related transactions including the transactions for purchase and sale of coal, supplies and services with Guodian Group are as follows:

	Provision of supplies and services by the Group to related parties and other inflows *RMB million*	**Purchase of supplies and services from related parties by the Group and other outflows** *RMB million*
Daily related transactions between the Group and Guodian Group	14,255	845
Of which: (1) Coal supply	14,239	766
(2) Mutual supply of products and services	16	79

The total transaction amount of mutual coal supply and mutual supplies and services between the Group and China Energy Group (including Guodian Group) in 2018 does not exceed the 2018 annual caps set out 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.

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

☐ Applicable ✔ Not applicable

(III) Material related transactions regarding joint external investments

For the details of the Group and Guodian Group establishing a Joint Venture Company with the equity and assets of the related coal-fired companies which held by the Group and Guodian Group, please refer to Section V "Subsequent Events" of this report.

(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
China Energy and its subsidiaries	Controlling shareholders and its subsidiaries	0	0	**0**	1,373.85	(500.00)	**873.85**
Other related parties	Others	490.72	(3.30)	**487.42**	0	0	**0**
Total		490.72	(3.30)	**487.42**	1,373.85	(500.00)	**873.85**

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 China Energy 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	Controlling Subsidiary	Hulunbei'er Liangyi Railway Company Limited	96.59	2008.08.30	2008.08.30	2029.08.29	Joint and several liability guarantee	No	No	0	No	No	N/A
Shendong Coal Group	Wholly-owned subsidiary	Yulin Zhugaita Coal Cargo Transportation Co., Ltd.	76.31	2017.06.13	2017.06.13	2019.06.12	Joint and several liability guarantee	No	No	0	No	No	N/A
Shenhua Zhuhai Coal Dock	Controlling Subsidiary	Zhuhai Port Co., Ltd.	58.80	2018.06.13	2018.06.13	2026.09.29	Joint and several liability guarantee	No	No	0	No	No	N/A
Shenhua Zhuhai Coal Dock	Controlling Subsidiary	Guangdong Yudean Farnon Investment Co., Ltd.	58.80	2018.12.21	2018.12.21	2026.09.29	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)	147.30
Total balance of guarantee at the end of the reporting period (A) (excluding guarantee provided to its subsidiaries)	290.50
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	(3,260.82)
Total balance of guarantee provided for the benefit of subsidiaries at the end of the reporting period (B)	6,906.86
3. Total amount of guarantee (including guarantee for the benefit of its subsidiaries)	
Total amount of guarantee (A+B)	7,197.36
Proportion of total amount of guarantee to the net assets attributable to equity holders of the Company at the end of the year under Accounting Standards for Business Enterprises in 2018 (%)	2.2
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)	7,003.45
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)	7,003.45
Description of the potential joint and several repayment liability for outstanding guarantee	Please refer to below
Description of guarantee	Please refer to 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 multiplies by the shareholding of the Company in the subsidiary.

As at the end of the reporting period, the total balance of the amount of guarantee provided by the Group amounted to RMB7,197.36 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 RMB30.99 million. Shenbao Energy Company already made full provision for impairment on its 14.22% equity interest in Liangyi Railway Company 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 2018, Liangyi Railway Company had a gearing ratio of 138.89 %.

(2) As at the end of the reporting period, the guarantee provided by Shendong Coal Group, 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 Group, as one of the guarantors, provided joint and several liability guarantee to Yulin Zhugaita Coal Cargo Transportation Co., Ltd. (of which Shendong Coal Group 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 2018, the actual amount withdrawn by Yulin Zhugaita Coal Cargo Transportation Co., Ltd. amounted to RMB231.24 million, with a gearing ratio of 57.1%.

(3) As at the end of the reporting period, the external joint and several liability counter guarantee provided by Shenhua Zhuhai Coal Dock, a controlling subsidiary held as to 40% by the Company is as follows:

Each of Guangdong Yudean Farnon Investment Co., Ltd. ("Yudean Farnon") and Zhuhai Port Co., Ltd. ("Zhuhai Port") held 30% equity interests in Shenhua Zhuhai Coal Dock, respectively.

Shenhua Zhuhai Coal Dock entered into a loan contract with Zhuhai branch of SPD Bank for a term of 10 years (from 30 September 2017 to 30 September 2027) with an amount of RMB336.0 million, pursuant to which Yudean Farnon and Zhuhai Port provided joint and several liabilities guarantee for such loan with an amount of RMB168 million, respectively. The guarantee periods are both two years from the expiry of term of debt performance by the debtor in the loan contract. Shenhua Zhuhai Coal Dock provided counter guarantee of joint and several liabilities to Yudean Farnon and Zhuhai Port with the caps of counter guarantee amount of RMB168 million, respectively. The above counter guarantee was approved at the eleventh meeting of the fourth session of the Board of the Company.

As at the end of the reporting period, Shenhua Zhuhai Coal Dock has entered into a counter guarantee contract for joint and several liabilities counter guarantee ("Counter Guarantee Contract") with Zhuhai Port and Yudean Farnon respectively, with the caps of counter guarantee amount of RMB168 million. The counter guarantee period would be from the effective date of the Counter Guarantee Contract to the settlement of all payment by Shenhua Zhuhai Coal Dock.

As of 31 December 2018, Zhuhai branch of SPD bank granted a loan of RMB294 million to Shenhua Zhuhai Coal Dock, the principal and interest of which being repaid in a regular basis.

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

As at 31 December 2018, the USD-denominated loan has been repaid and the guarantee liability of the Company was discharged accordingly.

(5) As of the end of the reporting period, the amount of guarantee between subsidiaries in consolidated reports of the Company, in proportion to its shareholding, amounted to approximately RMB6,906.86 million, which was mainly due to the fact that Shenhua Hong Kong Limited, the wholly-owned subsidiary of the Company, provided guarantees for the issuance of USD1.0 billion bonds by China Shenhua Overseas Capital Co., Ltd., its wholly-owned subsidiary, and Shenhua Funeng Power Co., Ltd. of which the Company indirectly held 51% shares provided guarantees to its two controlling subsidiaries.

For the details of the opinions of the independent Directors, please refer to the 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 Notes	Outstanding ending balance	Overdue uncollectible amount
Banks' wealth management products	Own fund	30,000	30,000	0
Entrusted wealth management products	Own fund	50	0	0
Brokers' wealth management products	Own fund	100	0	0

Note: Maximum balance refers to the daily highest balance of the entrusted wealth management of such type of the Group in 2018.

(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 fund	Investment of fund	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 Development Bank	Banks' wealth management products	5,000	2018/12/25	2019/06/30	Own fund	Fixed income assets such as bonds and management plans for assets	One-off payment of principal with accrued interest upon expiry	3.8%	3.64	0	Yes
2	China Shenhua	Industrial and Commercial Bank of China	Banks' wealth management products	5,000	2018/12/21	2019/06/25	Own fund	Fixed income assets such as bonds and management plans for assets	One-off payment of principal with accrued interest upon expiry	3.45%	5.20	0	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 fund	Investment of fund	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
3	China Shenhua	China Construction Bank	Banks' wealth management products	8,000	2018/12/25	2019/06/25	Own fund	Various types of bonds, repurchases, interbank deposits, etc., in interbank bond markets	One-off payment of principal with accrued interest upon expiry	3.45%	5.29	0	Yes
4	China Shenhua	Agricultural Bank of China	Banks' wealth management products	9,000	2018/12/26	2019/06/25	Own fund	government bonds, financial bonds, central bank bills, etc., and other investment instruments with fixed income	One-off payment of principal with accrued interest upon expiry	3.4%	5.03	0	Yes
5	China Shenhua	Industrial Bank (China)	Banks' wealth management products	3,000	2018/12/26	2019/06/26	Own Fund	Money market instruments, fixed-income short-term investment instruments, trust plans and asset management plans of brokers, etc.	One-off payment of principal with accrued interest upon expiry	3.9%	1.92	0	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 fund	Investment of fund	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
6	Shenhua Finance Company	CITIC Trust	Entrusted wealth management products	50	2016/12/27	2018/02/12	Own fund	Fixed-income asset and cash asset and other financial instruments or products with a high security	Based on net value	4.23%	2.39	50	Yes
7	Shenhua Finance Company	CITIC Securities	Brokers' wealth management products	100	2017/01/04	2018/12/28	Own fund	Fixed-income asset and cash asset, financial products, etc.	Based on net value	4.95%	9.79	100	Yes

As of the end of 2018, the total outstanding principal amount of entrusted wealth management products of the Group amounted to RMB30,000 million, which, under the precondition of guarantee of safety and liquidity, mainly consisted of banks' wealth management products which purchased in order to reasonably rise the capital revenue in the short term. 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 2018[Note]	Outstanding ending balance	Overdue uncollectible amount
Entrusted loans	Own fund	457.4	420.0	37.4

Note: Maximum balance in 2018 refers to the daily highest balance of the entrusted loans of such type of the Group in 2018.

(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 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	1year	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	420.0	2017/12/29	2020/12/29	3years	Own fund	Replacement of loans	Settlement of interest on quarterly basis	4.75%	19.0	0	Yes

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

2. In December 2017, Shendong Power Company, being the wholly-owned subsidiary of the Company, entered into entrusted loan agreements with amounts of RMB420 million and RMB200 million with Inner Inner Mongolia Yili Chemical Industry Co., Ltd. ("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 2018, 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) Derivative investment

1. Thermal coal futures

In January 2018, 3,800 lots for contract of thermal coal futures held by the Group completed delivery. As of the end of the year of 2018, the Group has not engaged in any other trading in thermal coal futures.

2. USD-denominated debt hedging

To avoid USD debt risk, according to the Annual Plan on Financial Derivatives Business of China Shenhua for 2018, which was approved in the eighth meeting of the fourth session of the Board of the Company after consideration, the Company, after subsequent standardised decision-making process, conducted exchange rate hedging of USD150 million of the USD debts by use of financial derivatives in 2018.

The propose of exchange rate hedging 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. FULFILLING THE WORK OF SOCIAL RESPONSIBILITY

(I) Poverty alleviation

1. Targeted poverty alleviation plan

The Group has intensified the implementation of the Opinions of the State Council on Winning the Tough Battle against Poverty and China Energy Group Working Plan on Poverty Alleviation 2018–2020 by establishing and improving the system for organization and guarantee of poverty alleviation work. Adhering to the principle of targeted contribution based on its ability to benefit the public, the Group has made full use of unique local resources and adopted different measures based on the local circumstances with emphasis on solving practical problems. With continuous improvement of the production capability, life quality and medical condition in provinces targeted for support, provinces under focused poverty alleviation and deprived villages as the intention and the foothold, the Group meticulously organized poverty alleviation projects and constantly invested supporting funds while carrying out various work including education support, hygiene improvement and medical support, enhancement in construction of rural infrastructure and production facilities and assistance in the development of special industries in deprived regions, as well as strengthening the promotion and application of new technologies, new industries, new business types and new business models in poverty alleviation.

China Energy Public Welfare 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 China Energy Public Welfare Foundation[1].

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[1] Proportion of Donation of China Shenhua is 83% among the donation funds received by the China Energy Public Welfare Foundation since its establishment

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

In 2018, China Shenhua contributed approximately RMB97.40 million to targeted poverty alleviation[1]. The amount mainly used for (1) fostering the development of specified industries by adapting to local conditions. Concerning the local circumstances and conventions in targeted deprived providences, development which takes local limitation into concern would drive local specialized industries and raise the income of the underprivileged, thus broaden the means of income raise for poor farmers and herdsmen; (2) Increase investment in ecological protection and rehabilitation in poverty-stricken areas, achieve ecological improvement and poverty alleviation; (3) Fund local construction of roads and bridges construction, manage basic farmlands, renew saline-alkali land, and build new irrigation systems and water source points, erect agricultural power lines and establish medical and health facilities at village level, and dispatch cadres at the grass-roots level to assist in implementation; (4) Help the development of local education, assist schools, improve the teaching accommodation environment, and set up a school aid fund to subsidize students from poor areas to complete their studies, as well as help children with leukemia and congenital heart disease in poor families.

Each poverty alleviation work of China Shenhua achieved remarkable results, and was well recognized by the local government and all walks of life. For the details of poverty alleviation work, please refer to the 2018 ESG Report disclosed in conjunction to this report.

[1] Calculation basis of the capital expenditure for targeted poverty alleviation: capital expenditure of China Energy Public Welfare Foundation for targeted poverty alleviation × the proportion of donation made by the Group to China Energy Public Welfare Foundation + the capital expenditure of the Group directly used for targeted poverty alleviation.

3. Targeted poverty alleviation results[1]

Index	Number and Circumstances
I. General	
In which: 1. Capital *(RMB0'000)*	9,739.51
2. Number of filed poverty-stricken people who overcome poverty	1,186
II. Contribution By Category	
1. Industry development support *(RMB0'000)*	1,120.05
In which: Category of industry support project	Agriculture and forestry support project
1.1 Number of industry support project *(unit)*	8
1.2 Amount of industry support project *(RMB0'000)*	1,120.05
2. Employment transfer for poverty alleviation *(RMB0'000)*	523.06
In which: 2.1 Amount of subsidy for vocational skill training *(RMB0'000)*	523.06
2.2 Number of people received vocational skill training	132
2.3 Number of filed poverty-stricken people who get employed *(persons)*	70
3. Education support *(RMB0'000)*	5,259.9
In which: 3.1 Subsidy for poor students *(RMB0'000)*	575.4
3.2 Number of subsidized poor students	1,100
3.3 Investment amount for improving educational resources in deprived regions *(RMB0'000)*	4,684.5
4. Health support *(RMB0'000)*	1,546.5
In which: 4.1 Investment amount for helping poor people with treatment for serious illness*(RMB0'000)*[2]	1,546.5
4.2 Number of population received treatment for serious illness	19,813
5. Other projects *(RMB0'000)*	1,290
In which: 5.1 Number of projects *(unit)*	6
5.2 Investment amount *(RMB0'000)*	1,290
5.3. Other details of the projects	Undertake poverty alleviation through infrastructure by building roads, bridges and culverts, ensuring safe drinking water, and ecological protection

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

2 Mainly used as aids to children with leukemia and congenital heart disease in impoverished families.

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

The Company has undertaken the pairing assistance work in three counties – Wubu county and Mizhi county in Shaanxi province, as well as Butuo county in Sichuan province. Meanwhile, the Company carried out education and medical poverty alleviation work through the platform of China Energy Public Welfare Foundation, and the one-on-one supporting scheme in deprived villages near 13 subsidiaries of Zhunge'er Energy Group. At present, the company has sent a total of 7 cadres to three designated poverty alleviation counties, ensuring that at least one county-level cadre and one resident secretary of the village are in charge of poverty alleviation work in each county. In 2018, all the poverty alleviation funds in the counties have been allocated, the key support projects are progressing smoothly, and the implementation effect is expected. Mizhi County and Wubu County have entered the poverty alleviation assessment.

In the targeted poverty alleviation and poverty shed off sharing 2018, the Company is honored the "most influential company in targeted poverty alleviation". Comrade Hu Xiaoming, the first secretary of Bozuo Village in Butuo County, was awarded the title of "National Poverty Leader".

5. Subsequent targeted poverty alleviation plan

In 2019, the Group will commit to implement the deployment of poverty alleviation plan by the central government, promoting poverty alleviation work in accordance with the annual plan to help the counties complete the task of poverty alleviation as scheduled. The highlights are: (1) stick to the targeted poverty alleviation areas according to local conditions and characteristics; (2) give full play to the role of cadres, concentrate funds and resources, and (3) Adhere to the "Zhizhi Double Help", continue increasing donation and education and vocational skills training, and improve self-development capabilities; (4) Actively apply new technologies, new industries, new formats and new business models. Cultivate and strengthen local characteristic agriculture, red tourism and other industries; (5) Support infrastructure construction and improve the production and living conditions of poor people; (6) Increase the "purchase by donation" and actively promote the sales of agricultural products in poverty-stricken counties, indicating local The masses establish rural product brands; (7) adhere to the combination of poverty alleviation and ecological protection, and achieve a win-win situation for poverty alleviation and ecological civilization construction.

(II) Corporate social responsibilities

For the work of the Group's social responsibility, please refer to the 2018 Environmental, Social and Governance Report disclosed at the same time as this report.

(III) Donations

During the reporting period, the Group made external donations of approximately RMB460 million.

(IV) Environmental information

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

(1) Information on pollutant discharge

During the reporting period, total emission of major pollutants of enterprises whose pollution sources were under key supervision and control of the state and enterprises whose pollution sources were under key supervision and control of the Company is as follows: sulfur dioxide of 19.6 thousand tonnes, nitrogen oxides of 38.6 thousand tonnes, soot of 4.3 thousand tonnes and chemical oxygen demand (COD) of 671 tonnes. In particular, total emission of major air pollutants produced by the enterprises categorized as national major pollution source under supervision is as follows: sulfur dioxide of 18.9 thousand tonnes, nitrogen oxides of 37.3 thousand tonnes, soot of 3.1 thousand tonnes and chemical oxygen demand (COD) of 441 tonnes.

As at 31 December 2018, 49 subsidiaries of the Group were categorized as national major pollution source under supervision (among which 43 were waste gas exhausting enterprises, 6 were wastewater discharging enterprises (inclusive of 1 waste gas exhausting enterprise concurrently), hazardous solid waste discharging enterprise (also was a waste gas exhausting enterprise and a wastewater discharging enterprise), mainly are coal-fired power plants, coal chemical plants and coal washing plants, etc. which are located in places including Inner Mongolia, Shaanxi, Fujian, Hebei, Anhui, Jiangsu and Zhejiang.

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

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

In 2018, top three enterprises under the state's key supervision and control of pollution sources of the Group with the largest total emission of sulfur dioxide and nitrogen oxides are as follows:

Subsidiary	Major pollutant	Total emission 2018 (Tonne)	Approved total emission by the pollutant discharge permit (Tonnes/year)
Guangdong Guohua Yudean Taishan Power Co., Ltd.	SO2	1,229.75	4,780
	NOx	2,524.39	9,560
	Soot	150.8	N/A[Note]
Shaanxi Guohua Jinjie Energy Co., Ltd.	SO2	1,281.75	1,535
	NOx	2,304.95	4,910.97
	Soot	263.15	1,314.35
Shenhua Yili Energy Co., Ltd.	SO2	1,029.0	3,200
	NOx	2,380.1	3,200
	Soot	193.9	450

Note: the soot emission concentration limit ratified by the pollutant discharge permit is 20mg/Nm^3.

In 2018, top three enterprises under the state's key supervision and control of pollution sources of the Group with the largest emission of chemical oxygen demand (COD) were: Baotou Coal Chemical Company (147 tonnes), Jinjie Energy (coal mine)(126.5 tonnes), and wastewater treatment plants of Daliuta Coal Mine of Shendong Coal Group (42.5 tonnes).

In 2018, solid waste discharge of enterprise under the state's key supervision and control of pollution sources of the Group is as follows:1,379.56 tonnes from Baotou Coal Chemical Company (inspection were arranged in the second half of the year, resulting in relatively substantial volume of hazardous solid waste). The above hazardous waste are all disposed of and transferred in a compliance with regulations without being discharged;

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

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

(2) Construction and operation of pollution prevention and control facilities

During the reporting period, all subsidiaries of the Group were well-equipped with pollution prevention and control facilities that were under stable operation. They fully implemented the Water Pollution Control Action Plan for 2015–2020, constructed underground reservoir in goaf areas, as well as constructed wastewater treatment plants and advanced water treatment plants to achieve comprehensive treatment and utilization of wastewater.

Such comprehensive measures as full closure of the coal storage yard, installation of wind and dust prevention walls, and spray facilities, as well as solidification and dust sealing for outbound coal by railway transportation, were implemented well as dust reduction in the underground mines, so as to strengthen dust treatment. The environmental protection facilities for dust removal, desulfurization and denitrification of coal-fired generating units and thermoelectric boilers were under stable operation, with the emission of soot reaching the standard. In particular, 89.9% coal-fired generating units achieved ultra-low emission (calculated by installed capacity). The hydrogen sulfide gas produced by the chemical industry was treated with the Level 2 Claus + tail-gas hydrogenation technology, after which the emission of tail gas was able to reach the standard of discharge. The general solid waste by-products, such as, coal gangue, furnace ash and desulphurization gypsum, were comprehensively utilized in the forms of power generation and brick making, and all hazardous wastes were disposed of and transferred in compliance with the relevant requirements.

(3) Environmental effect appraisal of construction project and other administrative approvals on environmental protection

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

(4) Emergency plan for unexpected environmental incidents

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

(5) Environment self-monitoring plan

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

(6) Other environmental information that should be disclosed

☐ Applicable ✔ Not applicable

2. **Environmental issues of companies other than those classified as the key pollutant discharging units**

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

3. **Explanation of reasons for non-disclosure of environmental information by companies other than those classified as the key pollutant discharging units**

☐ Applicable ✔ Not applicable

4. **Explanation of the follow-up progress of or changes in the disclosure of environmental information during the reporting period**

☐ Applicable ✔ Not applicable

For the details of the related environmental protection work, please refer to the 2018 Environmental, Society and Governance Report disclosed as the same time of the report.

XIV. CONVERTIBLE COMPANY BOND

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

For the year ended 31 December 2018, 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)*	183,150
Including: Holders of A shares (including China Energy)	180,995
Registered holders of H shares	2,155
Total number of ordinary shareholders at the end of last month prior to the date of this annual report *(accounts)*	176,341
Including: Holders of A shares (including China Energy)	174,184
Registered holders of H shares	2,157

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				Shares subject to pledge or lock-up		
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	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	-303,503	3,390,476,296	17.05	0	Unknown	N/A	Overseas corporate
China Securities Finance Corporation Limited	-81,697,594	594,718,049	2.99	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	+26,669,612	73,501,578	0.37	0	Nil	N/A	Overseas corporate
Bank of Communications-E Fund 50 Index Securities Investment Fund	+11,057,276	24,080,916	0.12	0	Nil	N/A	Others
Industrial and Commercial Bank of China-Shanghai Index 50 Trading Open-end Index Securities Investment Fund	+5,826,282	20,975,346	0.11	0	Nil	N/A	Others
Bank of Communications Co., Ltd. -Hua'an Strategic Chosen Hybrid Securities Investment Fund	+12,418,772	12,418,772	0.06	0	Nil	N/A	Others
Industrial Bank Co., Ltd.-Xingquan Organic Growth Flexible Configuration Hybrid Securities Investment Fund	+12,337,542	12,337,542	0.06	0	Nil	N/A	Others
Industrial and Commercial Bank of China Limited-Huitianfu Intelligent Manufacturing Stock Securities Investment Fund	+10,384,380	10,384,380	0.05	0	Nil	N/A	Others

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	3,390,476,296	Overseas listed foreign shares	3,390,476,296
China Securities Finance Corporation Limited	594,718,049	RMB ordinary shares	594,718,049
Central Huijin Asset Management Ltd.	110,027,300	RMB ordinary shares	110,027,300
Hong Kong Securities Clearing Company Limited	73,501,578	RMB ordinary shares	73,501,578
Bank of Communications-E Fund 50 Index Securities Investment Fund	24,080,916	RMB ordinary shares	24,080,916
Industrial and Commercial Bank of China-Shanghai Index 50 Trading Open-end Index Securities Investment Fund	20,975,346	RMB ordinary shares	20,975,346
Bank of Communications Co., Ltd.-Hua'an Strategic Chosen Hybrid Securities Investment Fund	12,418,772	RMB ordinary shares	12,418,772
Industrial Bank Co., Ltd.-Xingquan Organic Growth Flexible Configuration Hybrid Securities Investment Fund	12,337,542	RMB ordinary shares	12,337,542
Industrial and Commercial Bank of China Limited-Huitianfu Intelligent Manufacturing Stock Securities Investment Fund	10,384,380	RMB ordinary shares	10,384,380
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; The trustee bank of Bank of Communications-E Fund 50 Index Securities Investment Fund and Bank of Communications Co., Ltd.-Hua'an Strategic Chosen Hybrid Securities Investment Fund is Bank of Communications; The trustee bank of Industrial and Commercial Bank of China-Shanghai Index 50 Trading Open-end Index Securities Investment Fund and Industrial and Commercial Bank of China Limited-Huitianfu Intelligent Manufacturing Stock Securities Investment Fund is Industrial and Commercial Bank of China; 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 2018, 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	China Energy	Beneficial owner	A shares	N/A	14,530,574,452	88.11	73.06
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	H shares	Long position	242,144,123	7.12	1.22
				Short position	3,627,500	0.11	0.02
3	JPMorgan Chase & Co.	Beneficial owner; investment manager; guarantee equity owner; approved lending agent	H shares	Long position	215,485,407	6.34	1.08
				Short position	8,519,392	0.25	0.04
				Shares available for lending	98,597,474	2.90	0.50
4	Citigroup Inc.	Beneficial owner; guarantee equity owner; approved lending agent	H shares	Long position	178,294,047	5.24	0.90
				Short position	904,500	0.02	0.00
				Shares available for lending	169,509,745	4.98	0.85

Notes: (1) Among H shares in long position and short position held by BlackRock, Inc., 790,665 H shares in long position involve derivatives, and their type is unlisted derivatives – cash settled.

(2) In 215,485,407 H shares in long position held by JPMorgan Chase & Co., 55,585,728 H shares are held in its capacity as the beneficial owner, 49,826,939 H shares are held in its capacity as the investment manager, 11,426,446 H shares are held in its capacity as the guarantee equity owner, 18,592 H shares are held in its capacity as the trustee, 48,820 H shares are held in its capacity as the approved lending agent.

(3) In 178,294,047 H shares in long position held by Citigroup Inc., 8,759,802 H shares are held in its capacity as the beneficial owner, 24,500 H shares are held in its capacity as the the guarantee equity owner, 169,509,745 H shares are held in its capacity as the approved lending agent.

Save as disclosed above, as at 31 December 2018, 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 as at the end of the reporting period

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-to-liquids, 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 in above sectors of members of China Energy Group; 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 relevant authorities; no business activities which are prohibited or restricted by the industrial policies shall be carried out.)

Shareholdings in other domestic and overseas listed subsidiaries and associates during the reporting period	(1)	Controlled listed companies: holding 58.44% shares of China Longyuan Power Group Corporation Limited; holding 46.09% shares of GD Power Development Co., Ltd.; holding 78.4% shares of Guodian Technology & Environment Group Corporation Limited; holding 37.39% shares of Guodian Changyuan Electric Power Co., Ltd.. Actual control of 61.42% shares of Inner Mongolia Pingzhuang Energy Co., Ltd.; actual control of 51.25% shares of Ningxia Yinglite Chemicals Co., Ltd.; actual control of 23.25% shares of Yantai Longyuan Power Technology Co., Ltd..
	(2)	Listed companies with direct participation: holding 2.90% shares of China National Chemical Engineering Co., Ltd..
Other Information	(1)	On 22 November 2017, Shenhua Group Corporation Limited changed its name into China Energy Investment Corporation Limited, and completed the changes in industrial and commercial registration. 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.
	(2)	On 30 January 2019, China Energy received a confirmation document on the share transfer registration from China Securities Depository and Clearing Corporation Limited, confirming that shares of China National Chemical Engineering Co., Ltd. have been transferred to Beijing Chengtong Financial Control Investment Co., Ltd. and Guoxin Investment Co., Ltd. for nil consideration, and the transfer registration has been completed.

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

On 30 January 2019, the share transfer registration by China Energy for nil consideration was completed. After this transfer for nil consideration, China Energy holds 13,812,709,196 A shares of the Company, representing approximately 69.45% of the share capital of the Company. For details, please refer to the H shares announcement dated 30 January 2019 and the A shares announcement dated 31 January 2019 of the Company.

(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	55	2 January 2018	22 June 2020	–	–	Yes
	Executive Director			6 November 2004	22 June 2020			
Li Dong	Executive Director	Male	58	17 June 2016	22 June 2020	–	–	Yes
	Senior Vice President (Resigned)			24 May 2011	19 October 2018	–	–	Yes
Gao Song	Executive Director	Male	57	27 April 2018	22 June 2020	–	–	Yes
Mi Shuhua	Executive Director	Male	56	27 April 2018	22 June 2020	–	–	Yes
Zhao Jibin	Non-Executive Director	Male	66	17 June 2016	22 June 2020	–	–	Yes
Tam Wai Chu, Maria	Independent Non-Executive Director	Female	73	23 June 2017	22 June 2020	45	–	No
Peng Suping	Independent Non-Executive Director	Male	59	27 April 2018	22 June 2020	26.3	–	No
Jiang Bo	Independent Non-Executive Director	Female	63	23 June 2017	22 June 2020	45	–	No
Zhong Yingjie, Christina	Independent Non-Executive Director	Female	50	23 June 2017	22 June 2020	45	–	No
Huang Ming	Independent Non-Executive Director	Male	54	27 April 2018	22 June 2020	26.3	–	No
Zhai Richeng	Chairman of the Supervisory Committee	Male	54	22 August 2014	22 June 2020	40.7	–	Yes
Zhou Dayu	Supervisor	Male	53	17 June 2016	22 June 2020	59.7	17.7	Yes
Shen Lin	Supervisor	Male	58	22 August 2014	22 June 2020	60.1	18.8	Yes
Zhang Jiming	President	Male	55	13 September 2018	–	119.0	24.9	No
Xu Mingjun	Vice President	Male	55	29 November 2018	–	7.6	–	No
Jia Jinzhong	Vice President	Male	55	17 March 2017	–	101.4	18.7	No
Huang Qing	Secretary to the Board	Male	53	6 November 2004	–	114.5	29.9	No
Zhang Guangde	Vice President	Male	56	24 August 2018	–	27.4	–	No
Xu Shancheng	Chief Financial Officer	Male	54	28 December 2018	–	–	–	No
Total						718.0	110.0	

Notes: (1) The remuneration of Directors received from shareholders of the Company for 2018 will be disclosed on the website of China Energy upon completion of assessment made by the SASAC of the State Council.

(2) The remuneration package of Directors and supervisors for 2018 is subject to approval by the Company at the 2018 annual general meeting; the remuneration package of the senior management was approved by the Board; the remunerations before tax include salaries, social benefit payment, retirement scheme contributions and performance based salary.

(3) Zhai Richeng, Zhou Dayu and Shen Lin received remuneration from the Company from January to June 2018, and received remuneration from China Energy from July to December 2018; and the remuneration received by other personnel from the Company covers the year of 2018 or the period from the commencement of term of office of the Company to 31 December 2018.

(4) 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 2018.

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 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 during the reporting period
Han Jianguo	Executive Director	Male	60	24 May 2011	15 May 2018	–	–	Yes
Wang Jinli	Senior Vice President	Male	59	27 September 2013	19 October 2018	–	–	Yes
Wang Shumin	Vice President	Male	56	25 November 2015	19 October 2018	–	–	Yes
Zhang Zifei	Vice President	Male	60	25 November 2015	31 May 2018	63.9	24.8	No
Lv Zhiren	Vice President	Male	54	17 March 2017	13 September 2018	74.5	14.0	No
Zhang Kehui	Chief Financial Officer	Female	55	22 January 2007	14 December 2018	112.0	28.2	No
Total						250.4	67.0	

Note: (1) The remuneration of Directors and senior management received from shareholders of the Company for 2018 will be disclosed on the website of China Energy upon completion of assessment made by the SASAC of the State Council.

(2) The remuneration package of Directors for 2018 is subject to approval by the Company at the 2018 annual general meeting; the remuneration package of the senior management was approved by the Board; the remunerations before tax include salaries, social benefit payment, retirement scheme contributions and performance based salary.

(3) 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.

(4) The ages were calculated as of 31 December 2018.

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 China Energy 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
 **Li Dong** Executive Director	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, and the Deputy General Manager and member of the Leading Party Members' Group of China Energy since November 2017. Dr. Li served as senior Vice President of the Company from May 2011 to October 2018, an Executive Director of the third session of the Board of the Company from June 2016 to June 2017, the Deputy General Manager of Shenhua Group Corporation from August 2006 to April 2010, and a member of the Leading Party Members' Group and Deputy General Manager of Shenhua Group Corporation from April 2010 to November 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
 **Gao Song** Executive Director	Born in February 1961, male, Chinese, a professor-level senior engineer and a member of the Communist Party of China. Mr. Gao has extensive management experience in power enterprises. He received a bachelor's degree in thermal power engineering from Zhejiang University in 1982. Mr. Gao has served as an Executive Director of the fourth session of the Board of the Company since April 2018, served as the deputy general manager and a member of the Leading Party Members' Group of China Energy Group since November 2017, and worked as a director of GD Power since September 2012. Mr. Gao also serves as the Chairman of CHN Energy Dadu River Hydropower Development Co., Ltd., the Chairman of CHN Energy Jinsha River Xulong Hydropower Development Co., Ltd. and the Chairman of CHN Energy Jinsha River Benzilan Hydropower Development Co., Ltd. Prior to the foregoing, Mr. Gao had served in various capacities, including the deputy general manager, a member of the Leading Party Members' Group and the director of the working committee of China Guodian Group Co., Ltd, the general manager and deputy secretary to the Leading Party Members' Group of GD Power Development Co., Ltd., the general manager assistant of China Guodian Corporation, the secretary to the Leading Party Members' Group and general manager of the North China branch of China Guodian Corporation and chief engineer of Hebei Electric Power Corporation.

Name	Biographical details
 **Mi Shuhua** Executive Director	Born in October 1962, male, Chinese, a senior engineer and a member of the Communist Party of China. Mr. Mi has extensive management experience in power enterprises. He received a bachelor's degree in thermal power engineering from Northeast Electric Power Institute in 1984. Mr. Mi has served as an Executive Director of the fourth session of the Board of the Company since April 2018, served as the deputy general manager and a member of the Leading Party Members' Group of China Energy Group since November 2017, worked as the dean of Guodian New Energy Technology Research Institute since December 2016 and a director of GD Power since April 2014. Prior to the foregoing, Mr. Mi had served in various capacities, including the deputy general manager and a member of the Leading Party Members' Group of China Guodian Group Co. Ltd.,, the general manager and deputy secretary to the Leading Party Members' Group of GD Power, the general manager assistant of China Guodian Group Co. Ltd.,, the secretary to the Leading Party Members' Group, an executive director and the general manager of Guodian Northeast Electric Power Co., Ltd.

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 China Energy Group since November 2017 and of China National Building Material Group Corporation since December 2014. Mr. Zhao had served as an external Director of Shenhua Group Corporation from April 2015 to November 2017, a Non-Executive Director of third session of the Board of the Company from June 2016 to June 2017, 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. 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, and a Hong Kong SAR convener to the National People's Congress. She has served as a member of the Basic Law Committee of the Hong Kong Special Administrative Region since July 1997 and currently serves as the deputy director of the committee. Dr. Tam currently serves as the director of the Joint Committee for the Promotion of the Basic Law of Hong Kong, and has also served as an Independent Non-Executive Director in various listed companies, including Wing On Company International Limited, Sinopec Kantons Holdings 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-officer 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. She served as an Independent Non-Executive Director of Tong Ren Tang Technologies Company Limited from October 2000 to May 2018. She served as an Independent Non-Executive Director of Minmetals Land Limited from April 1997 to March 2018. 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
 **Peng Suping** Independent Non-Executive Director	Born in June 1959, male, Chinese, a professor of China University of Mining and Technology and a member of the Communist Party of China. Dr. Peng has long engaged in the teaching and research of mining geology and geophysical prospecting of mine engineering, with rich experience in coal industry. Dr. Peng received a Ph. D degree in coal geology & exploration from the Beijing Postgraduate Department of China University of Mining and Technology in 1988. He was elected as an academician of Chinese Academy of Engineering in 2007. Dr. Peng has worked as the director of State Key Laboratory of Coal Resources and Safe Mining (China University of Mining and Technology, Beijing) since January 2007, the director of the Department of Energy and Mining Engineering of Chinese Academy of Engineering from July 2014 to June 2018, an Independent Director of Tiandi Science & Technology Co., Ltd. from June 2010 to October 2018, and an Independent Director of Tibet Huayu Mining Co., Ltd. from October 2012 to October 2018. Prior to the foregoing, Dr. Peng had served in various capacities, including the vice director of the Department of Energy and Mining Engineering of Chinese Academy of Engineering and an Independent Director of Beijing LongRuan Technologies Inc.

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.

Name	Biographical details
 **Huang Ming** Independent Non-Executive Director	Born in March 1964, male, American, a tenured professor of finance of the Johnson School of Management of Cornell University. He has long been engaged in the academic research in finance and is familiar with China's financial market and corporate finance. Dr. Huang received two Ph.D degrees of physics and finance respectively from Cornell University of in America in 1991 and Stanford University in America in 1996. Dr. Huang has served as a tenured professor of finance of the Johnson School of Management of Cornell University since July 2005, a professor of finance of China Europe International Business School concurrently since July 2010, an independent director of Yingli Green Energy Holding Co., Ltd. since August 2008, an independent director of Fantasia Holdings Group Co., Limited since October 2009, an Independent Director of JD.com, Inc. since March 2014, an Independent Director of WH Group Limited since July 2014 and an Independent Director of 360 Security Technology Inc. since February 2018.

(2) Supervisors

Name	Biographical details
 **Zhai Richeng** Chairman of the 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 fourth session of Supervisory Committee of the Company since June 2017 and a full-time Director (director level) of China Energy since May 2018. Mr. Zhai has served as Director of Property Ownership Administration of the Company and Director of Property Ownership Administration of Shenhua Group Corporation from June 2015 to May 2018, Chairman of the third session of the Supervisory Committee of the Company from August 2014 to June 2017 and 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.

Name	Biographical details
 **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 fourth session of Supervisory Committee of the Company since June 2017 and a Director of the Industrial Coordination Department of the China Energy Group since May 2018. Mr. Zhou has served as the General Manager of the Capital Operation Department of the Company and the General Manager of the Capital Operation Department of Shenhua Group Corporation from March 2016 to May 2018, a Supervisor of the third session of the Supervisory Committee of the Company from June 2016 to June 2017, and the General Manager of the Business Administration Department of the Company and the General Manager of the Business Administration Department of Shenhua Group Corporation 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.
 **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 2006 with a master's degree. Mr. Shen has served as an Employee Representative Supervisor of the fourth session of the Supervisory Committee of the Company since June 2017, and served as a full-time Director (director level) of China Energy since May 2018. Mr. Shen has served as the Chief of the Department of Enterprise Culture of the Company and Chief of the Department of Party Building of Shenhua Group Corporation from July 2010 to May 2018, and served as an Employee Representative Supervisor of the third session of the Supervisory Committee of the Company from August 2014 to June 2017. 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 to the Discipline Committee to the Party.

(3) Senior management

Name	Biographical details
 **Zhang Jiming** President and Deputy Secretary to the Party Committee	Born in November 1963, male, Chinese, a senior engineer and a member of the Communist Party of China, expert on "government special allowance" of the State Council. Mr. Zhang has extensive experience in business administration. In 1985, he graduated from Liaoning Petrochemical School. Mr. Zhang has served as the president and the deputy secretary to the Party Committee of the Company since September 2018. Mr. Zhang served as the vice president of the Company from July 2016 to September 2018, as the deputy secretary to the Party Committee, the chairman and the general manager of China Shenhua Coal to Liquid and Chemical Co., Ltd. from August 2012 to July 2016, and as a Director and a Vice President (subsidiary chief level) of China Shenhua Coal to Liquid and Chemical Co., Ltd., and as the general manager, the secretary to the Party Committee and the deputy secretary to the Party Committee of Ordos Coal to Liquid Branch Company of China Shenhua Coal to Liquid and Chemical Co., Ltd. from May 2008 to August 2012. Prior to the foregoing, Mr. Zhang had successively held the positions of the director and a vice director of Liaoyang Petrochemical Branch Company Refinery Plant.

Name	Biographical details
 **Xu Mingjun** Secretary to the Party Committee and Vice President	Born in October 1963, male, Chinese, a senior political engineer and a graduate of postgraduate program, a member of the Communist Party of China. Mr. Xu has extensive experience in corporate management. Mr. Xu has served as the secretary to the Party Committee of the Company since September 2018, the Vice President of the Company since November 2018 and the assistant to the general manager of the China Energy since May 2018. Mr. Xu served as assistant to general manager of China Guodian Corporation, secretary to the Leading Party Group, secretary to the Party Committee and deputy general manager of GD Power, assistant to general manager of the China Energy and secretary to the Party Committee and deputy general manager of GD Power from May 2016 to September 2018. He served as the secretary to the board of directors, assistant to the general manager and the head of general office of China Guodian Corporation from January 2012 to May 2016. Prior to the foregoing, Mr. Xu had served in various capacities, including the director of people work division of the Departmental Party Committee of the State Bureau of Coal Industry, the deputy director of labour union working division, deputy director of general division of people work department and a director-level investigator and researcher under the Central Enterprise Working Committee, the director of news division and assistant inspector of the bureau of publicity under the State-owned Assets Supervision and Administration Commission of the State Council, a deputy secretary of prefectural committee in Tacheng, Xinjiang, a deputy inspector of the bureau of publicity under the SASAC, the chief of political work office, a member and a deputy secretary to the Party Committee directly under China Guodian Corporation and the head of general office of China Guodian Corporation.

Name	Biographical details
 **Jia Jinzhong** Vice President and member to the Party Committee	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, a member to the Party Committee of the Company since June 2018, and the chief economist of China Energy Group since May 2018. 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.
 **Huang Qing** Secretary to the Board and member to the Party Committee	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, a member to the Party Committee of the Company since June 2018 and the Vice Chairman of Beijing GD Power Co., Ltd. since March 2019. 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.

Name	Biographical details
 **Zhang Guangde** Vice President and member to the Party Committee	Born in May 1962, male, Chinese, a professor-level senior engineer and a member of the Communist Party of China. Mr. Zhang has extensive experience in corporate management. He obtained a bachelor's degree from Huainan Mining Institute in 1983 and a master's degree from Jiaozuo Mining Institute in 1990. Mr. Zhang has served as the Vice President of the Company since August 2018, a member to the Party Committee of the Company since June 2018, and a Director of Beijing GD Power Co., Ltd. since March 2019. Mr. Zhang has served as a director of the Safety Supervision Bureau of the Company and a director of the Safety Supervision Bureau of Shenhua Group Corporation Limited from May 2013 to June 2018, a director of the Safety Supervision Bureau of the Company and a deputy director of the Safety Supervision Bureau of Shenhua Group Corporation Limited from November 2009 to May 2013, and a general manager of the Safety, Health and Environment Department of the Company from November 2004 to November 2009. Prior to the foregoing, Mr. Zhang has served as an engineer, deputy chief engineer and chief engineer of the Scientific Research Institute of Jiaozuo Mining Bureau, a deputy chief engineer of Jiaozuo Mining Bureau, a chief engineer of Jiaozuo Coal Industry (Group) Co., Ltd., and a deputy manager and manager of the Safety Supervision and Quality Control Department of Shenhua Group Corporation Limited.

Name	Biographical details
 **Xu Shancheng** Chief Financial Officer and member to the Party Committee	Born in March 1964, male, Chinese, a senior accountant and a member of the Communist Party of China. Mr. Xu has extensive experience in financial management. He obtained a master's degree in Economics from Renmin University of China in 2001. Mr. Xu has served as the Chief Financial Officer and member to the Party Committee of the Company since December 2018, the chairman of Shenhua (Tianjin) Finance Lease Co., Ltd. since August 2016, a Non-Executive Director of Shenhua Finance Company since August 2017 and the Chairman of the board of supervisors of Beijing GD Power Co., Ltd. since March 2019. Mr. Xu was the secretary and deputy officer of the financial property department of China Energy from May 2018 to December 2018. He served as the general manager of the financial department of the Company and Shenhua Group Corporation Limited from August 2016 to May 2018. He served as the deputy general manager and chief financial officer of Beijing Guohua Power Company Limited, and Guohua Power Branch of the Company from March 2015 to August 2016. He served as the deputy general manager and chief financial officer of Shenhua Guoneng Group Co., Ltd. and Shenhua Shendong Power Co., Ltd. from December 2012 to March 2015. Prior to the foregoing, Mr. Xu held the post of the head of financial department of Electric Power Industry Bureau of Hebei Province (Company), manager of financial department of North China Power Group Company, chief accountant of Qinghai Electric Power Company (Bureau), chief accountant of North China Grid Company, deputy officer of Social Insurance Management Center of State Grid Corporation of China (Grid Corporate Annuity Management Center) and a member of the Leading Party Group, deputy general manager, chief accountant and other positions of State Grid Energy Development Co. Ltd..

The Company resolutely implemented the new requirements of political construction in the new era, and strengthened the overall leadership of the Party. The Company has formulated a Party building work plan, revised and improved the Articles of Association and rules and regulations of the Company, institutionalized the Party Committee research and discussion as a pre-procedure of major decision-making, and organically integrated the Party leadership with the improvement of corporate governance.

In June 2018, China Shenhua established the new session of Party Committee. As of the end of the reporting period, Xu Mingjun served as the secretary of China Shenhua Party Committee; Zhang Jiming served as the deputy secretary to the Party Committee; Jia Jinzhong, Huang Qing, Zhang Guangde, Yang Suping and Xu Shancheng served as members to the Party Committee, and Yang Suping also served as secretary to the Disciplinary Committee. Please see below for the biographical details of Yang Suping. For the biographical details of other Party Committee members, please refer to the paragraph headed "Biographical details of the Directors, supervisors and senior management as at the end of the reporting period" of this section.

Name	Biographical details
 **Yang Suping** Secretary to the Disciplinary Committee and member to the Party Committee	Born in August 1965, female, Chinese, a graduate of postgraduate program, with, a Ph.D degree in management, a senior engineer. She currently serves as the secretary to the Disciplinary Committee and a member to the Party Committee of China Shenhua Energy Company Limited. Dr. Yang served as an assistant researcher in the Planning Division under the Planning Department of the Ministry of Energy Department of the State, deputy director of the Planning Department of Comprehensive Planning, Investment and Financing Department of the State Power Corporation, deputy director of the Planning and Development Department and head of the Leading Party Members' Group Inspection Office of China Guodian.

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. Zhang Jiming, President and Deputy Secretary to the Party Committee, is responsible for the Board and exercises his responsibilities as the President in accordance with the requirements of the Articles of Association. Mr. Zhang presides over the daily administrative and overall work of the Company, and is responsible for administrative management, scientific and technological innovation, auditing, strategic planning, coal-to-oil chemical industry coordination and other works of the Company. Xu Mingjun, Secretary to the Party Committee and Vice President, is in charge of Party building, establishment of integrity, ideology and politics, cadre talents, organization of work, news propaganda, united front, labour union and groups and construction of corporate culture. Vice President and member to the Party Committee Jia Jinzhong is in charge of corporate governance, legal affairs and transportation industry work. Secretary to the Board and member to the Party Committee Huang Qing is in charge of Board affairs, board of supervisors affairs, information disclosure and investor relationship management. Zhang Guangde, Vice President and member to the Party Committee, is in charge of coordination of coal and power industry and international business. Xu Shancheng, Chief Financial Officer and member to the Party Committee, is in charge of financial operation, cost control, capital operation, property rights management and labour union. Yang Suping, the secretary to the Disciplinary Committee and member to the Party Committee, is in charge of discipline supervision and inspection, anti-corruption of the Party and daily patrol.

(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	China Energy	Director, General manager, Deputy secretary to the Leading Party Members' Group	November 2017	–
	Li Dong	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017	–
	Gao Song	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017	–
		GD Power	Director	September 2012	–
		CHN Energy Dadu River Hydropower Development Co., Ltd.	Chairman	July 2018	-
		CHN Energy Jinsha River Xulong Hydropower Development Co., Ltd	Chairman	June 2018	-
		CHN Energy Jinsha River Benzilan Hydropower Development Co., Ltd.	Chairman	June 2018	-
	Mi Shuhua	China Energy	Deputy General Manager, member of the Leading Party Members' Group	November 2017	–
		GD Power	Director	April 2014	–
		Guodian New Energy Technology Research Institute	Dean	December 2016	–
	Zhao Jibin	China Energy	External Director	November 2017	–

Category	Name	Name of shareholder	Positions	Commencement of term of office	Expiry of term of office
Supervisors of China Shenhua	Zhai Richeng	China Energy	Director of Property Ownership Administration of Former Shenhua Group Corporation	June 2015	May 2018
			Full-time Director (director level)	May 2018	–
	Zhou Dayu	China Energy	General manager of Capital Operation Department of Former Shenhua Group Corporation	March 2016	May 2018
			Director of Industrial Coordination Department	May 2018	–
	Shen Lin	China Energy	General manager of Department of Party Building of Former Shenhua Group Corporation	July 2010	May 2018
			Full-time Director (director level)	May 2018	–
Senior Management of China Shenhua	Xu Mingjun	China Energy	Assistant to General Manager	May 2018	–
	Jia Jinzhong	China Energy	Chief Economist	May 2018	–
	Huang Qing	Beijing GD Power Co., Ltd.	Vice Chairman	March 2019	–
	Zhang Guangde	Beijing GD Power Co., Ltd.	Director	March 2019	–
	Xu Shancheng	Beijing GD Power Co., Ltd.	Chairman of the Board of Supervisors	March 2019	–

(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	Tong Ren Tang Technologies Company Limited	Independent Non-Executive Director	October 2000	May 2018
	Wing On Company International Limited	Independent Non-Executive Director	January 1994	–
	Minmetals Land Limited	Independent Non-Executive Director	April 1997	April 2018
	Sinopec Kantons Holdings Limited	Independent Non-Executive Director	March 1998	–
	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	–
Peng Suping	State Key Laboratory of Coal Resources and Safe Mining (China University of Mining and Technology, Beijing)	Director	January 2007	–
	Department of Energy and Mining Engineering of Chinese Academy of Engineering	Director	July 2014	June 2018
	Tiandi Science & Technology Co., Ltd.	Independent Director	June 2010	October 2018
	Tibet Huayu Mining Co., Ltd.	Independent Director	October 2012	October 2018
Jiang Bo	Sinopec Oilfield Service Corporation	Independent Non-Executive Director	February 2015	–
Huang Ming	Johnson School of Management of Cornell University	Tenured Professor of Finance	July 2005	–
	China Europe International Business School	Professor of Finance	July 2010	–
	Yingli Green Energy Holding Co., Ltd.	Independent Director	August 2008	–
	Fantasia Holdings Group Co., Limited	Independent Director	October 2009	–
	JD.com, Inc.	Independent Director	March 2014	–
	WH Group Limited	Independent Director	July 2014	–
	360 Security Technology Inc.	Independent Director	February 2018	–

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures	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 determination	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.
Actual payment of remuneration	Please refer to "Changes in shareholding and remuneration" in this section
Total remuneration actually obtained as 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

Name	Position	Particular of movements	Reason for the change
Ling Wen	Chairman Vice Chairman, President	Appointed Resigned	Approved at the eighth meeting of the fourth session of the Board on 2 January 2018 due to work arrangements
Gao Song	Executive Director	Elected	Elected at the extraordinary general meeting on 27 April 2018
Mi Shuhua	Executive Director	Elected	Elected at the extraordinary general meeting on 27 April 2018
Peng Suping	Independent Non-Executive Director	Elected	Elected at the extraordinary general meeting on 27 April 2018
Huang Ming	Independent Non-Executive Director	Elected	Elected at the extraordinary general meeting on 27 April 2018
Zhang Jiming	President Vice President	Appointed Resigned	Approved at the thirteenth meeting of the fourth session of the Board on 13 September 2018 due to work arrangements
Xu Mingjun	Vice President	Appointed	Approved at the fifteenth meeting of the fourth session of the Board on 29 November 2018
Zhang Guangde	Vice President	Appointed	Approved at the twelfth meeting of the fourth session of the Board on 24 August 2018
Xu Shancheng	Chief Financial Officer	Appointed	Approved at the sixteenth meeting of the fourth session of the Board on 28 December 2018

Name	Position	Particular of movements	Reason for the change
Han Jianguo	Executive Director	Resigned	Resigned on 15 May 2018 due to retirement
Li Dong	Senior Vice President	Resigned	Resigned from the position of Senior Vice President on 19 October 2018 due to adjustments to work arrangements, but continued to serve as an Executive Director and relevant posts in committees under the Board
Wang Jinli	Senior Vice President	Resigned	Resigned on 19 October 2018 due to adjustments to work arrangements
Wang Shumin	Vice President	Resigned	Resigned on 19 October 2018 due to adjustments to work arrangements
Zhang Zifei	Vice President	Resigned	Resigned on 31 May 2018 due to retirement
Lv Zhiren	Vice President	Resigned	Resigned on 13 September 2018 due to adjustments to work arrangements
Zhang Kehui	Chief Financial Officer	Resigned	Resigned on 14 December 2018 due to retirement

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

☐ Applicable ✔ Not applicable

VI. OTHER SIGNIFICANT MATTERS

During the reporting period, Mr. Lv Zhiren, the former 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. Save as the matters mentioned above, 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 2018, 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 2018 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, the Supplemental Agreement to the Non-Competition Agreement entered into between the Company and China Energy (effective after conditions are satisfied) on 2 March 2018, revision of annual caps of the daily related/connected transactions with China Energy for the year 2018 and 2019, the establishment of a joint venture company and entering into of the Agreement on Establishment of the Joint Venture Company by way of Assets Reorganizations with GD Power, and entering into the Supplemental Agreement to the Agreement on Establishment of the Joint Venture Company by way of Assets Reorganizations entered into between GD Power Development Co., Ltd. and China Shenhua Energy Company Limited and Articles of Association of the Joint Venture Company on 30 November 2018, 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 2018 and subsisting during or at the end of the year of 2018; 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 2018 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 2018, 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.

VIII. EMPLOYEES OF THE GROUP

(I) Employees

Number of current employees of the headquarter of the Company *(Number of person)*	120
Number of current employees of the branches/subsidiaries of the Company *(Number of person)*	86,736
Total number of current employees of the Group *(Number of person)*	**86,856**
Number of retired employees in respect of which the Company and subsidiaries bore cost *(Number of person)*	15,112

Function

Function	**Number of person**
Operation and repair	53,233
Management and administration	13,218
Finance	1,830
Research and development	2,603
Technical support	11,364
Sales and marketing	902
Others	3,706
Total	86,856

Education Level

Education Level	Number of person
Postgraduate and above	3,093
University graduate	31,965
College graduate	23,039
Specialized secondary school graduate	12,824
Graduate of technical school, high school and below	15,935
Total	86,856

(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 2018, the accrued capital used for training was approximately RMB412 million. The number of attendances in training was approximately 0.64 million with training hours of approximately 6.18 million hours in aggregate. For details, please refer to the 2018 ESG Report of the Group.

(IV) Outsourced Work

Total number of working hours of outsourced work	Approximately 79.73 million hours
Total remuneration paid for outsourced work	RMB3.059 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 130 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 149 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. The Chairman of the Board and the President are held by different personnel.

During the year ended 31 December 2018, 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 has made two amendments to the Articles of Association. For details, please refer to the H Share Announcements of the Company dated 27 April and 22 June 2018 and the A Share Announcements of the Company dated 28 April and 23 June 2018.

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. As at the end of the reporting period, the Board of the Company consisted of 10 Directors, including 4 Executive Directors, 1 Non-Executive Director and 5 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 "Directors' Report" 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 66, 69 and 75 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
2018 First Extraordinary General Meeting	27 April 2018	The website of the Shanghai Stock Exchange	28 April 2018
2017 Annual General Meeting	22 June 2018	The website of the Shanghai Stock Exchange	23 June 2018

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 27 April 2018 and 22 June 2018, respectively, and were also disclosed on the website of the Shanghai Stock Exchange on 28 April 2018 and 23 June 2018, respectively.

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

		Attendance at Board meetings						
Name of Director	Independent Director or not	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	9	9	3	0	0	No	2/2
Li Dong	No	9	8	4	1	0	No	1/2
Gao Song	No	6	3	3	3	0	No	1/1
Mi Shuhua	No	6	4	3	2	0	No	0/1
Zhao Jibin	No	9	7	3	2	0	No	2/2
Tam Wai Chu, Maria	Yes	9	9	4	0	0	No	2/2
Peng Suping	Yes	6	5	3	1	0	No	1/1
Jiang Bo	Yes	9	9	3	0	0	No	2/2
Zhong Yingjie, Christina	Yes	9	9	3	0	0	No	2/2
Huang Ming	Yes	6	6	3	0	0	No	1/1
Resigned Directors during the reporting period								
Han Jianguo	No	4	3	0	1	0	No	1/1

Number of Board meetings held during the year	9
Including: Number of meetings held on-site	4
Number of meetings held by correspondence	3
Number of meetings held on-site with correspondence	2

In 2018, the Board of the Company held a total of 9 meetings, at which all the proposals were considered and approved. Details of the meetings are as follows:

No.	Name	Date	Methods
1	The 8th meeting of the fourth session of the Board	2 January 2018	On-site with correspondence
2	The 9th meeting of the fourth session of the Board	1 March 2018	On-site
3	The 10th meeting of the fourth session of the Board	23 March 2018	On-site with correspondence
4	The 11th meeting of the fourth session of the Board	27 April 2018	On-site
5	The 12th meeting of the fourth session of the Board	24 August 2018	On-site
6	The 13th meeting of the fourth session of the Board	13 September 2018	Correspondence
7	The 14th meeting of the fourth session of the Board	30 October 2018	On-site
8	The 15th meeting of the fourth session of the Board	29 November 2018	Correspondence
9	The 16th meeting of the fourth session of the Board	28 December 2018	Correspondence

(II) Performance of duties of independent Directors

During the reporting period, the fourth session of the Board of the Company had five Independent Non-Executive Directors, namely Tam Wai Chu, Maria, Peng Suping, Jiang Bo, Zhong Yingjie, Christina, Huang Ming, among whom Jiang Bo and 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..

According to the requirements of the CSRC, as the Independent Non-Executive Directors of China Shenhua, five Directors, namely Tam Wai Chu, Maria, Peng Suping, Jiang Bo, Zhong Yingjie, Christina and Huang Ming, issued independent opinions on the performance of duties of Li Dong and Wang Jinli as Senior Vice President of China Shenhua and the deputy General Manager of China Energy concurrently from March 2018 to October 2018, Wang Shumin as the vice president of China Shenhua and the General Manager of China Energy concurrently from March 2018 to October 2018, and Xu Mingjun as the vice president of China Shenhua and the General Manager Assistant of China Energy concurrently from November 2018 to December 2018 as follows: 1. Li Dong, Wang Jinli, Wang Shumin, Xu Mingjun was diligent and responsible to implement the development strategies and mission targets formulated by the Board; 2. fulfilled their 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 2018:

No.	General Meeting	Subject Matter	Status
1	2018 First Extraordinary General Meeting	To approve the amendments to the Articles of Association, and to authorize the Chairman to make amendments to the Articles of Association of the Company as he may consider necessary and appropriate as required by relevant regulatory authorities from time to time in the course of proposing for approval of/filing the Articles of Association with such regulatory authorities, and carry out or authorize to carry out relevant legal proceedings necessary for amendments to the Articles of Association.	The resolution passed at the general meetings has been implemented, and corporate governance has been carried out in accordance with the amended Articles of Association.
		To approve the Supplemental Agreement to Non-Competition Agreement entered between China Shenhua and China Energy.	Based on the resolution passed at the general meeting and the development strategies of China Shenhua, the Company will carry out the non-competition-related work.

No.	General Meeting	Subject Matter	Status
		To approve the Agreement on Establishment of Joint Venture Company by way of Assets Reorganization entered between the Company and GD Power and to authorize the committee of Directors comprising Chairman, President (Director) and Chairman of the Audit Committee, to handle various specific matters in connection with the transaction at its absolute discretion.	The joint venture company has completed the industrial and commercial registration and obtained business license. Such transaction had been completed on 31 January 2019.
		To approve the revision of the annual caps of partial daily connected/related party transactions for the year 2018 and 2019, and to authorize the committee of Directors comprising the Chairman, the President (Director) and Chairman of the Audit Committee to handle relevant matters.	The Company has implemented the revised annual caps for the year 2018 for certain daily connected transactions.
2	2017 Annual General Meeting	To approve the profit distribution plan of the Company for the year 2017, and to authorize the Chairman, the President (Director) to specifically implement the matters of profit distribution.	The relevant matters of profit distribution of the Company for the year 2017 has been completed in the third quarter of 2018.
		To approve re-appointment of the external auditors for the year 2018, and to authorize the committee of Directors comprising the Chairman, the President (Director) and Chairman of the Audit Committee to determine the remuneration of auditors.	The appointment and the remuneration of auditors for the year 2018 are set out in the section headed "Significant Events" in the report.

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

(I) Composition of the committees

At the end of the reporting period, the Company has established five committees under the Board, and the details are as follows:

The fourth session of the Board committees

Strategy Committee	Ling Wen (Chairman), Peng Suping (Vice Chairman), Gao Song, Zhao Jibin
Audit Committee	Zhong Yingjie, Christina (Chairwoman), Tam Wai Chu, Maria, Jiang Bo
Remuneration Committee	Tam Wai Chu, Maria (Chairwoman), Jiang Bo, Zhong Yingjie, Christina
Nomination Committee	Jiang Bo (Chairwoman), Huang Ming, Zhao Jibin
Safety, Health and Environment Committee	Zhao Jibin (Chairman), Li Dong, Mi Shuhua, Tam Wai Chu, Maria, Zhong Yingjie, Christina

Notes: 1. On 15 May 2018, Han Jianguo resigned as Director of the Company and members of Strategy Committee and Nomination Committee.

2. On 27 April 2018, four Directors of the fourth session of the Board were elected at the 2018 first extraordinary general meeting of the Company, namely executive Directors Gao Song and Mi Shuhua, and independent non-executive Directors Peng Suping and Huang Ming.

3. On 24 August 2018, the Company resolved to appoint Peng Suping as Vice Chairman of the Strategy Committee, Gao Song as member of the Strategy Committee under the Board, Huang Ming as member of the Nomination Committee, and Mi Shuhua as member of the Safety, Health and Environment Committee at the 12th meeting of the fourth session of the Board.

(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 2018, the Strategy Committee of the Board held two meetings to consider proposals such as the Asset Transfer Agreement entered into with Shenhua Shendong Power Co., Ltd., a wholly-owned subsidiary, establishment of a joint venture company, supplemental agreement to non-competition agreement and the special plan for the first batch of equity investment project in 2018, 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 2018, the Audit Committee held 11 meetings to consider proposals such as the financial reports and internal control reports of the Company, advising on utilizing idle funds to increase the investment gains of the Company, 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 2018 annual report and internal control report of the Company:

(1) Before the accounting firms for 2018, namely Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu (“Deloitte”), proceeded with on-site auditing, the Audit Committee had negotiation with Deloitte on the determination of the schedule of the Company’s 2018 audit. On 17 October 2018, the Audit Committee reviewed the Company’s plans for the audit plan for the year 2018 and the internal control assessment plan for the year 2018.

(2) After the issue of preliminary audit opinions by Deloitte, the Audit Committee reviewed the draft internal control assessment report and financial statements for 2018. On 13 March 2019, the Audit Committee reviewed the 2018 Assessment Report on Internal Control (Draft) and 2018 Financial Statements (Draft) of China Shenhua prepared by the Company.

(3) Deloitte completed all audit procedures within the agreed time and reported to the Audit Committee its intention to issue a standard unqualified audit report for 2018. On 18 March 2019, 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 social responsibility report for the year 2018 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 2018, the Remuneration Committee held three meetings to consider proposals including the remuneration packages of Directors, supervisors and senior management for the year 2017 and the proposed value of the assessment indicators for the 2018 operating results of the Company management, all of which were approved at the meeting and all members attended the meetings in person or by phone. 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 authorized by the Board.

In 2018, the Nomination Committee held five meetings to consider proposals including the nominations of candidates for President, Vice President, Directors of the fourth session of the Board and members of relevant committees under 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 authorized by the Board.

In 2018, the Safety, Health and Environment Committee held one meeting to consider and approved the 2017 CSR Report, 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 at the end of the reporting period, two Vice Presidents of China Shenghua also acted concurrently as chief economist and general manager assistant of China Energy, but they were not entitled to remuneration from China Energy.

During the reporting period, China Shenhua established a new session of Party committee, carried out restructuring of the headquarters and personnel reform, established several functional departments and industrial centers, improved the management system and process, and optimized operating management mechanism, establishing the daily operation mechanism of the state-owned enterprise in line with its own characteristics.

There are potential peer competitions between the coal business and other business of China Energy Group and the major business of the Company. In accordance with the resolution on entering into Supplemental Agreement to the Existing Non-Competition Agreement with China Energy Group (effective after conditions are satisfied) considered and approved at the 2018 first extraordinary general meeting of the Company, China Shenhua, as an integration platform of the coal business of China Energy Group, will discretionally exercise the Options, the Pre-emptive Rights and the option to acquire pursuant to the Existing Non-Competition Agreement and the supplemental agreement entered between the two parties, thereby gradually reducing horizontal competition. For details, please refer to Section VI Performance of Commitment of this report.

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 2018.

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 2018 in accordance with the aforementioned procedures.

The 2018 Proposal for Internal Control Evaluation of the Company was considered and approved by the Audit Committee under the Board, and the 2018 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 2018 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 the Insider Information and Insider Registration and the Administrative Measures for Information Disclosure of Internal Report 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 2018, 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 23 March 2019 for the 2018 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 2018, 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 5th meeting of the fourth session of the Supervisory Committee	1 March	Beijing	On-site	All	Proposal of entering into the Supplemental Agreement to the Existing Non-Competition Agreement with the China Energy Investment Corporation Limited that will become effective after conditions are satisfied	Passed unanimously
					Proposal of the establishment of joint venture company and entering into the Agreement on Establishment of Joint Venture Company by way of Assets Reorganization	Passed unanimously
The 6th meeting of the fourth session of the Supervisory Committee	23 March	Beijing	On-site	All	Proposal of the 2017 Annual Report of the Company	Passed unanimously
					Proposal of the 2017 Financial Report of the Company	Passed unanimously
					Proposal of the 2017 profit distribution plan of the Company	Passed unanimously
					Proposal of the 2017 CSR Report of the Company	Passed unanimously
					Proposal of the 2017 Assessment Report on Internal Control of the Company	Passed unanimously
					Proposal of the Supervisory Committee's report of the Company for the year 2017	
The 7th meeting of the fourth session of the Supervisory Committee	27 April	Beijing	On-site	All	Proposal of the 2018 First Quarterly Report of the Company	Passed unanimously
					Proposal of the 2018 First Quarterly Financial Report of the Company	Passed unanimously
The 8th meeting of the fourth session of the Supervisory Committee	24 August	Beijing	On-site	All	Proposal of the 2018 Interim Report of the Company	Passed unanimously
					Proposal of the 2018 Interim Financial Report of the Company	Passed unanimously

Meeting	Date	Venue	Method of Meeting	Attendance of supervisors	Subject matter	Poll results
The 9th meeting of the fourth session of the Supervisory Committee	30 October	Beijing	On-site	All	Proposal of the 2018 Third Quarterly Report of the Company	Passed unanimously
					Proposal of the 2018 Third Quarterly Financial Report of the Company	Passed unanimously
The 10th meeting of the fourth session of the Supervisory Committee	29 November	Beijing	In writing	All	Proposal of entering into the Supplemental Agreement to the Agreement on Establishment of the Joint Venture Company by way of Assets Reorganizations between GD Power Development Co., Ltd. and China Shenhua Energy Company Limited	Passed unanimously
					Proposal of the Articles of Association of the Joint Venture Company established by way of Assets Reorganizations entered into between GD Power Development Co., Ltd. and China Shenhua Energy Company Limited	Passed unanimously
The 11th meeting of the fourth session of the Supervisory Committee	28 December	Beijing	In writing	All	Proposal of entering into the Continuing Connected Transactions Framework Agreement between the China Railway and China Shenhua Energy Company Limited	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 information and insider registration and 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.

In 2018, China Shenhua proactively optimised investor relations work to promote investor protection work and good results have been obtained.

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

In 2018, in accordance with the requirements of regulators and listing rules, the Company continued to promote investor protection work, in particular medium and small investors. Firstly, the Company actively implemented the appeals of investors. According to the recommendations of China Securities Investor Service Center, the contents the Company added in the Articles of Association including separate vote counting of minority shareholders, cumulative voting system, not imposing any minimum shareholding limitation for soliciting voting rights, and the Company shall attach attention to the opinions of minority shareholders, to further improve the investor protection work level of the Company, all of which were approved by a majority of votes at the general meeting. Secondly, the Company expanded channels and enhanced investor communications. The Company actively participated in the Listed Companies Reception Day activity in Beijing and increased the frequency of communications with investors. In investigation and survey on the reception site, the Company specially designated persons to answer investor hotline, to keep the hotline available and the daily average calls were over five. Thirdly, the Company improved information disclosure with 222 announcements disclosed throughout the year, which effectively guaranteed the investors' rights to information, thereby maintaining Grade A of the information disclosure evaluated by the SSE.

II. PROVIDING VALID INFORMATION AND RESPONDING TO MARKET CONCERNS

In 2018, under the circumstances of the ever-changing supply and demand situation of the domestic coal industry, the stable coal prices with a slight decline, further promotion of reorganization and integration by the controlling shareholders of the Company, China Shenhua focused on core concerns in capital market. Firstly, the Company was engaged in in-depth and direct communication with investors focusing on shareholders return, use of capital, project investment, sales model, progress of establishment of new joint ventures and so on, and secondly, the Company strengthened the analysis on the changes in policy and industry, focused on the explanation of understanding and judgement of the Company on the future coal and power industry to the capital markets. Through responding to hot topics of market concerns, the Company enables the capital market to better understand its operating conditions and development direction, so as to boost the confidence of capital markets in the Company's future prospect.

III. SEIZING FAVORABLE OPPORTUNITIES TO ENHANCE INVESTOR RELATIONS

In 2018, capital market maintained a high attention to leading enterprises in various industries. By utilizing this favourable timing, the Company actively strengthened investor relation work. The Company also continuously engaged in honest and sufficient communication with investors and analysts through results announcement conferences, trading roadshows, online forums and other means. We have communicated with over 800 analysts and fund manager. In particular: communications have been made with over 270 persons at roadshows and results announcement conference, over 140 persons at investment forums and over 390 persons during reverse roadshows, investor research and conference calls and the Company has also held three online forums.

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3	ANNOUNCEMENT OF CHINA SHENHUA ON 2018 ANNUAL BUSINESS PLAN FOR FINANCIAL DERIVATIVES	2018-01-03
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14	ASSET AUDIT REPORT OF CHINA SHENHUA ON THE TARGET OF JOINT ESTABLISHMENT OF JOINT VENTURE COMPANY WITH GD POWER DEVELOPMENT CO., LTD.	2018-03-02
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21	ANNOUNCEMENT OF CHINA SHENHUA ON ENTERING INTO THE SUPPLEMENTAL AGREEMENT TO THE EXISTING NON-COMPETITION AGREEMENT THAT WILL BECOME EFFECTIVE AFTER CONDITIONS ARE SATISFIED	2018-03-02
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23	H SHARES CIRCULAR OF CHINA SHENHUA	2018-03-13
24	NOTICE OF CHINA SHENHUA ON CONVENING OF 2018 FIRST EXTRAORDINARY GENERAL MEETING	2018-03-13
25	ANNOUNCEMENT OF CHINA SHENHUA ON THE MAJOR OPERATIONAL DATA OF FEBRUARY 2018	2018-03-17
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83	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE 15TH MEETING OF THE FOURTH SESSION OF THE BOARD	2018-11-30
84	ANNOUNCEMENT OF CHINA SHENHUA REGARDING RESOLUTIONS AT THE TENTH MEETING OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE	2018-11-30
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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 183 to 297, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 Hong Kong Institute of Certified Public Accounts ("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 17 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 Yam Siu Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	Year ended 31 December 2018 RMB million	2017 RMB million
Revenue			
Goods and services	5	**264,101**	248,746
Cost of sales	7	**(173,677)**	(160,460)
Gross profit		**90,424**	88,286
Selling expenses		**(725)**	(612)
General and administrative expenses		**(9,854)**	(9,115)
Research and development costs		**(454)**	(341)
Other gains and losses	12	**(2,844)**	(1,880)
Other income	8	**744**	894
Impairment losses, net of reversal	12	**(152)**	–
Other expenses		**(3,504)**	(1,262)
Interest income	9	**1,479**	1,205
Finance costs	9	**(5,421)**	(4,416)
Share of results of associates		**448**	534
Profit before income tax		**70,141**	73,293
Income tax expense	10	**(15,977)**	(16,155)
Profit for the year	12	**54,164**	57,138
Other comprehensive (expense) income for the year			
Items that will not be reclassified to profit or loss, net of income tax:			
Remeasurement of defined benefit obligations		**(30)**	11
Fair value gain on investments in equity instruments at fair value through other comprehensive income		**66**	–
		36	11
Items that may be reclassified subsequently to profit or loss, net of income tax:			
Exchange differences		**120**	(210)
Share of other comprehensive income (expense) of associates		**13**	(3)
Fair value gain on available-for-sale financial assets		**–**	4
		133	(209)
Other comprehensive income (expense) for the year, net of income tax		**169**	(198)
Total comprehensive income for the year		**54,333**	56,940

	NOTES	Year ended 31 December 2018 RMB million	2017 RMB million
Profit for the year attributable to:			
Equity holders of the Company		**44,137**	47,795
Non-controlling interests		**10,027**	9,343
		54,164	57,138
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**44,262**	47,637
Non-controlling interests		**10,071**	9,303
		54,333	56,940
Earnings per share *(RMB)*			
– Basic	16	**2.219**	2.403

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	**31 December 2018 RMB million**	31 December 2017 RMB million
Non-current assets			
Property, plant and equipment	17	**257,349**	329,970
Construction in progress	18	**36,585**	39,054
Exploration and evaluation assets	19	**951**	998
Intangible assets	20	**3,623**	3,447
Interests in associates	21	**10,047**	9,513
Available-for-sale investments	23	**–**	854
Equity instruments at fair value through other comprehensive income	22	**811**	–
Other non-current assets	24	**29,456**	33,466
Lease prepayments	25	**16,425**	17,858
Deferred tax assets	31	**3,083**	3,798
Total non-current assets		**358,330**	438,958
Current assets			
Inventories	26	**9,967**	11,647
Accounts and bills receivables	27	**13,055**	19,455
Prepaid expenses and other current assets	28	**54,702**	20,452
Restricted bank deposits	29	**8,607**	7,348
Time deposits with original maturity over three months		**1,735**	1,870
Cash and cash equivalents	30	**61,863**	71,872
		149,929	132,644
Assets classified as held for sale	11	**83,367**	–
Total current assets		**233,296**	132,644
Current liabilities			
Borrowings	32	**5,772**	15,785
Accounts and bills payables	34	**26,884**	33,914
Accrued expenses and other payables	35	**52,737**	51,995
Current portion of medium-term notes	33	**–**	4,995
Current portion of bonds	33	**–**	3,267
Current portion of long-term liabilities	36	**457**	345
Income tax payable		**4,213**	5,604
Contract liabilities		**3,404**	–
		93,467	115,905
Liabilities associated with assets classified as held for sale	11	**29,914**	–
Total current liabilities		**123,381**	115,905
Net current assets		**109,915**	16,739
Total assets less current liabilities		**468,245**	455,697

At 31 December 2018

	NOTES	**31 December 2018 RMB million**	31 December 2017 RMB million
Non-current liabilities			
Borrowings	32	**46,765**	64,321
Bonds	33	**6,823**	6,485
Long-term liabilities	36	**2,092**	2,292
Accrued reclamation obligations	37	**3,191**	2,745
Deferred tax liabilities	31	**537**	749
Total non-current liabilities		**59,408**	76,592
Net assets		**408,837**	379,105
Equity			
Share capital	38	**19,890**	19,890
Reserves		**311,803**	285,651
Equity attributable to equity holders of the Company		**331,693**	305,541
Non-controlling interests		**77,144**	73,564
Total equity		**408,837**	379,105

The consolidated financial statements on pages 183 to 297 were approved and authorised for issue by the board of directors on 22 March 2019, and are signed on its behalf by:

Ling Wen
Chairman

Li Dong
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Equity attributable to equity holders of the Company									
	Share capital *RMB million* *(Note 38)*	Share premium *RMB million* *(Note (i))*	Capital reserve *RMB million* *(Note (ii))*	Exchange reserve *RMB million*	Statutory reserves *RMB million* *(Note (iii))*	Other reserves *RMB million* *(Note (iv))*	Retained earnings *RMB million* *(Note (v))*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 31 December 2017	19,890	85,001	3,612	(65)	24,493	(14,214)	186,824	305,541	73,564	379,105
Adjustment at the date of initial application of IFRS 9 *(Note 2.2)*	–	–	–	–	–	(692)	692	–	–	–
At 1 January 2018	19,890	85,001	3,612	(65)	24,493	(14,906)	187,516	305,541	73,564	379,105
Profit for the year	–	–	–	–	–	–	44,137	44,137	10,027	54,164
Other comprehensive income for the year	–	–	–	76	–	49	–	125	44	169
Total comprehensive income for the year	–	–	–	76	–	49	44,137	44,262	10,071	54,333
Dividend declared *(Note 15)*	–	–	–	–	–	–	(18,100)	(18,100)	–	(18,100)
Appropriation of maintenance and production funds *(Note (iii))*	–	–	–	–	5,457	–	(5,457)	–	–	–
Utilisation of maintenance and production funds *(Note (iii))*	–	–	–	–	(3,668)	–	3,668	–	–	–
Appropriation of general reserve *(Note (iii))*	–	–	–	–	258	–	(258)	–	–	–
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	376	376
Distributions to non-controlling shareholders	–	–	–	–	–	–	–	–	(6,867)	(6,867)
Others	–	–	–	–	–	(10)	–	(10)	–	(10)
At 31 December 2018	19,890	85,001	3,612	11	26,540	(14,867)	211,506	331,693	77,144	408,837

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2018

	Equity attributable to equity holders of the Company									
	Share capital *RMB million* *(Note 38)*	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 15)*	–	–	–	–	–	–	(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

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 each 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 2018 and 2017.

(iv) Other reserves

Other reserves mainly represents the consideration paid for acquisition of subsidiaries under common control, and share of other reserves 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 RMB25,198 million (31 December 2017: RMB22,573 million) as at 31 December 2018.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
OPERATING ACTIVITIES		
Profit before income tax	**70,141**	73,293
Adjustments for:		
Depreciation and amortisation *(Note 12)*	**23,728**	25,340
Other gains and losses *(Note 12)*	**2,844**	1,880
Interest income *(Note 9)*	**(1,479)**	(1,205)
Share of results of associates	**(448)**	(534)
Impairment loss, net of reversal *(Note 12)*	**152**	–
Interest expenses	**4,903**	4,910
Exchange loss (gain), net *(Note 9)*	**518**	(494)
Operating cash flows before movements in working capital	**100,359**	103,190
(Increase) decrease in inventories	**(141)**	1,588
Decrease in accounts and bills receivables	**851**	361
Increase in prepaid expenses and other receivables	**(762)**	(89)
Increase (decrease) in accounts and bills payables	**40**	(1,802)
Increase in accrued expenses and other payables	**6,757**	5,912
Decrease in contract liabilities	**(2,027)**	–
Cash generated from operations	**105,077**	109,160
Income tax paid	**(16,829)**	(14,008)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**88,248**	95,152
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	**(19,385)**	(19,602)
Increase in lease prepayments	**(1,550)**	(666)
Proceeds on disposal of property, plant and equipment, intangible assets, lease prepayments and other non-current assets	**942**	1,342
Proceeds on disposal of equity instruments at fair value through other comprehensive income	**2**	–
Proceeds on disposal of wealth management products	**108**	57,885
Proceeds on disposal of derivative financial instruments	**106**	59
Proceeds on entrusted loans	**–**	2,627
Investments in associates	**(1,368)**	(3,431)
Purchase of derivative financial instruments	**–**	(111)
Investments in bonds	**–**	(100)
Dividend received from associates	**247**	232
Interest received	**1,413**	1,097
Purchase of wealth management products	**(32,447)**	(24,100)
Offering entrusted loans	**–**	(2,220)
Increase in restricted bank deposits	**(1,259)**	(1,207)
Increase in time deposits with original maturity over three months	**(2,409)**	(1,827)
Maturity of time deposits with original maturity over three months	**2,544**	3,385
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(53,056)**	13,363

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
FINANCING ACTIVITIES *(Note 41)*		
Interest paid	**(5,541)**	(5,762)
Proceeds on borrowings	**35,389**	24,651
Repayments of borrowings	**(39,571)**	(14,490)
Repayments of bonds	**(3,208)**	–
Repayments of short-term debentures and medium-term notes	**(5,000)**	(20,000)
Proceeds on bills discounted	**455**	137
Contributions from non-controlling shareholders	**376**	1,164
Distributions to non-controlling shareholders	**(9,515)**	(4,249)
Dividend paid to equity holders of the Company	**(18,100)**	(59,072)
NET CASH USED IN FINANCING ACTIVITIES	**(44,715)**	(77,621)
Net (decrease) increase in cash and cash equivalents	**(9,523)**	30,894
Cash and cash equivalents, at the beginning of the year	**71,872**	41,188
Effect of foreign exchange rate changes	**49**	(210)
Cash and cash equivalents included in assets classified as held for sale	**(535)**	–
Cash and cash equivalents, at the end of the year	**61,863**	71,872

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 2018, the Directors consider the immediate parent and ultimate holding company of the Group to be China Energy Group.

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

New and Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standard Board ("IASB") for the first time in the current year:

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

Except as described below, the application of the new and 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.

2.1 IFRS 15 Revenue from Contracts with Customers

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

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

The Group recognises revenue from the following major sources which arise from contracts with customers:

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

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

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

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Summary of effects arising from initial application of IFRS 15

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

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

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

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

The following table summarises the impact of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported *RMB million*	**Adjustments** *RMB million*	**Amounts without application of IFRS 15** *RMB million*
Current Liabilities			
Accrued expenses and other payables	52,737	3,404	56,141
Contract liabilities	3,404	(3,404)	–

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

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

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

2.1 IFRS 15 Revenue from Contracts with Customers (Continued)

Impact on the consolidated statement of cash flows

	As reported *RMB million*	Adjustments *RMB million*	Amounts without application of IFRS 15 *RMB million*
Operating Activities			
Increase in accrued expenses and other payables	6,757	(2,027)	4,730
Decrease in contract liabilities	(2,027)	2,027	–

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

2.2 IFRS 9 Financial Instruments and the related amendments

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

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

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

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of IFRS 9

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

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

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

2.2 IFRS 9 Financial Instruments and the related amendments (Continued)

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

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

(a) AFS investments

From AFS equity investments to FVTOCI

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

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

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

2.2 IFRS 9 Financial Instruments and the related amendments (Continued)

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

(a) AFS investments (Continued)

From AFS investments to FVTPL

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

(b) Impairment under ECL model

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

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

For outstanding financial guarantees provided to an associate of RMB19 million and to an investee of RMB171 million, the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is measured on 12m ECL basis.

As at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings.

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

New and Amendments to IFRSs that are mandatorily effective for the current year (Continued)

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

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

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

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

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

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRSs 2015–2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after a date to be determined.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to IFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

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

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

IFRS 16 Leases (Continued)

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB3,792 million as disclosed in Note 42.2. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

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

IFRS 16 Leases (Continued)

In addition, the Group currently considers refundable rental deposits paid of RMB96 million as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

Upon application of IFRS 16, the Group will apply the requirements of IFRS 15 to assess whether sales and leaseback transaction constitutes a sale. For a transfer that does not satisfy the requirements as a sale, the Group will account for the transfer proceeds as financial liabilities within the scope of IFRS 9. In accordance with the transition provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application will not be reassessed but the new requirements may impact the Group's future sale and leaseback transactions.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining Whether an Arrangement Contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

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 40.3, which have been measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

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;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in 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

Acquisitions of businesses, other than business combination under common control 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)

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 group 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 or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (Continued)

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, 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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of IFRS 9, which continue to be measured in accordance with the accounting policies as set out in respective sections.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 2)

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

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

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

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

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

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

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

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

Output method

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (prior to 1 January 2018)

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.

Leases

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straightline basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 deprecation (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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure (Continued)

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.

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible, intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets other than goodwill (Continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities FVTPL) 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 FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a 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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 2) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

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

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

(iii) Financial assets at FVTPL

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

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

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2)

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) (Continued)

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

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

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

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external credit rating (if available);
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) (Continued)

(i) Significant increase in credit risk (Continued)

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

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

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) (Continued)

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concessions that the lenders would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial re-organisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 2) (Continued)

(v) Measurement and recognition of ECL (Continued)

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

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts and bills receivables and other receivables are each assessed as a separate group. Loans receivable are assessed for ECL on an individual basis);
- Past-due status; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

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

Except for financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts and bills receivables, where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets within the scope of IAS 39 are classified into the following specific categories: financial assets 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:

(i) *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.

(ii) *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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018) (Continued)

(iii) 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.

(iv) AFS financial assets

AFS financial assets are non-derivatives that are either designated as AFS 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".

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

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 receivable, 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 assets (Continued)

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in other reserves is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the other reserves is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing 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, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9/IAS 39 permits the entire combined contract to be designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

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 method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9 (since 1 January 2018)/IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (before application of IFRS 9 on 1 January 2018); and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

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.

4.1 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 46 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 46.

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 considered 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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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.

Impairment losses

In considering the impairment losses that may be required for certain of the Group's assets which mainly include property, plant and equipment, construction in progress and interests in associates, the recoverable amount of the asset need to be determined. The recoverable amount is the higher of its fair value less cost 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (Continued)

Impairment losses (Continued)

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 Notes 17, 18 and 21, 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. Depreciation for future periods is adjusted if there is a significant change from previous estimates. The carrying amount of the property, plant and equipment is disclosed in Note 17.

Deferred tax assets

As at 31 December 2018, deferred tax assets of RMB3,083 million (2017: RMB3,798 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 RMB7,532 million (2017: RMB7,268 million) and deductible temporary differences of RMB6,685 million (2017: RMB6,555 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.

Fair value measurement of financial instruments

Certain of the Group's financial assets, unquoted equity instruments amounting to RMB811 million as at 31 December 2018 (RMB749 million as at 1 January 2018) are measured at fair values with fair values being determined based on unobservable inputs using valuation techniques as set out in Note 40.3. Changes in assumptions relating to any key inputs may have a material impact on the reported fair values of these instruments.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of estimation uncertainty (Continued)

Provision of ECL for accounts and bills receivables

The Group uses provision matrix to calculate ECL for accounts and bills receivables. The provision rates are based on the aging of accounts and bills receivables as groupings of receivables that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, accounts and bills receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts and bills receivables are disclosed in Note 27 and 40.2, respectively.

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 37.

5. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

Segments	Coal 2018 RMB million	Coal 2017 RMB million	Power 2018 RMB million	Power 2017 RMB million	Railway 2018 RMB million	Railway 2017 RMB million	Port 2018 RMB million	Port 2017 RMB million	Shipping 2018 RMB million	Shipping 2017 RMB million	Coal chemical 2018 RMB million	Coal chemical 2017 RMB million	Others 2018 RMB million	Others 2017 RMB million	Total 2018 RMB million	Total 2017 RMB million
Types of goods or service																
Sales of goods																
Coal	155,792	150,740	–	–	–	–	–	–	–	–	–	–	–	–	155,792	150,740
Power	–	–	86,905	78,247	–	–	–	–	–	–	–	–	–	–	86,905	78,247
Coal chemical products	–	–	–	–	–	–	–	–	–	–	5,276	5,085	–	–	5,276	5,085
Others	5,053	4,630	1,271	999	–	–	–	–	–	–	564	596	–	–	6,888	6,225
	160,845	155,370	88,176	79,246	–	–	–	–	–	–	5,840	5,681	–	–	254,861	240,297
Transportation and other services																
Railway	–	–	–	–	5,106	4,797	–	–	–	–	–	–	–	–	5,106	4,797
Port	–	–	–	–	–	–	587	580	–	–	–	–	–	–	587	580
Shipping	–	–	–	–	–	–	–	–	837	698	–	–	–	–	837	698
Others	–	–	–	–	771	818	146	208	–	–	–	–	1,793	1,348	2,710	2,374
	–	–	–	–	5,877	5,615	733	788	837	698	–	–	1,793	1,348	9,240	8,449
Total	160,845	155,370	88,176	79,246	5,877	5,615	733	788	837	698	5,840	5,681	1,793	1,348	264,101	248,746
Geographical markets																
Domestic markets	158,831	152,562	87,419	78,538	5,877	5,615	733	788	837	698	5,840	5,681	1,793	1,348	261,330	245,230
Overseas markets	2,014	2,808	757	708	–	–	–	–	–	–	–	–	–	–	2,771	3,516
Total	160,845	155,370	88,176	79,246	5,877	5,615	733	788	837	698	5,840	5,681	1,793	1,348	264,101	248,746
Timing of revenue recognition																
A point in time	160,845	155,370	88,176	79,246	–	–	–	–	–	–	5,840	5,681	–	–	254,861	240,297
Over time	–	–	–	–	5,877	5,615	733	788	837	698	–	–	1,793	1,348	9,240	8,449
Total	160,845	155,370	88,176	79,246	5,877	5,615	733	788	837	698	5,840	5,681	1,793	1,348	264,101	248,746

The Group's revenue from contracts with customers is RMB262,308 million for the year ended 31 December 2018.

5. REVENUE FROM GOODS AND SERVICES (CONTINUED)

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

Segments	Coal		Power		Railway		Port		Shipping		Coal chemical		Others		Total	
	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million
Revenue disclosed in segment information																
External customers	160,845	155,370	88,176	79,246	5,877	5,615	733	788	837	698	5,840	5,681	1,793	1,348	264,101	248,746
Inter-segment	44,346	40,548	276	265	33,272	31,971	5,391	4,929	3,252	2,549	–	–	970	1,040	87,507	81,302
	205,191	195,918	88,452	79,511	39,149	37,586	6,124	5,717	4,089	3,247	5,840	5,681	2,763	2,388	351,608	330,048
Adjustment and eliminations	(44,346)	(40,548)	(276)	(265)	(33,272)	(31,971)	(5,391)	(4,929)	(3,252)	(2,549)	–	–	(970)	(1,040)	(87,507)	(81,302)
Revenue	160,845	155,370	88,176	79,246	5,877	5,615	733	788	837	698	5,840	5,681	1,793	1,348	264,101	248,746

The Group produces and sells coal and coal chemical products to customers at spot market. For sales of coal and coal chemical products, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customers' specific location. According to the Group's historical experiences, there was no exchange or return of coal and coal chemical products occurred. There is no sales-related warranties associated with coal and coal chemical products.

For sales of power, revenue is recognised upon the transmission of electric power to the power grid companies. Power could not be returned or exchanged and there is also no warranties associated with power sales.

The Group provides railway transportation services, shipment transportation services as well as port loading and storage services to customers. Such services are recognised as a performance obligation satisfied over time as the Group rendering the services. Revenue is recognised for these services based on the stage of completion of the performance obligation using output method.

All performance obligations of sales of coal, power and coal chemical products, railway and shipment transportation services, and port loading and storage services are part of contracts with an original expected duration of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

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 (2017: 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"). Reportable 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 2018 and 2017 is set out below：

	Coal		Power		Railway		Port		Shipping		Coal chemical		Segment total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue from external customers	**160,845**	155,370	**88,176**	79,246	**5,877**	5,615	**733**	788	**837**	698	**5,840**	5,681	**262,308**	247,398
Inter-segment revenue	**44,346**	40,548	**276**	265	**33,272**	31,971	**5,391**	4,929	**3,252**	2,549	**–**	–	**86,537**	80,262
Reportable segment revenue	**205,191**	195,918	**88,452**	79,511	**39,149**	37,586	**6,124**	5,717	**4,089**	3,247	**5,840**	5,681	**348,845**	327,660
Reportable segment profit	**39,872**	46,062	**9,968**	5,585	**16,073**	16,480	**2,073**	2,580	**706**	620	**709**	481	**69,401**	71,808
Including:														
Interest expenses	**1,348**	1,452	**2,871**	2,284	**922**	1,028	**344**	397	**19**	59	**67**	120	**5,571**	5,340
Depreciation and amortisation	**7,440**	7,703	**8,602**	10,059	**4,870**	4,858	**1,364**	1,266	**294**	293	**892**	913	**23,462**	25,092
Share of results of associates	**120**	266	**307**	213	**–**	–	**16**	17	**–**	–	**–**	–	**443**	496
Impairment loss	**458**	1,540	**520**	1,141	**210**	27	**21**	9	**–**	–	**49**	24	**1,258**	2,741

6.2 Reconciliations of reportable segment revenue, segment profit and other items of profit or loss for the years ended 31 December 2018 and 2017 are set out below:

	Reportable segment amounts		Unallocated head office and corporate items		Elimination of inter-segment amounts		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue	**348,845**	327,660	**2,763**	2,388	**(87,507)**	(81,302)	**264,101**	248,746
Profit before income tax	**69,401**	71,808	**856**	1,463	**(116)**	22	**70,141**	73,293
Interest expenses	**5,571**	5,340	**1,016**	1,660	**(1,684)**	(2,090)	**4,903**	4,910
Depreciation and amortisation	**23,462**	25,092	**266**	248	**–**	–	**23,728**	25,340
Share of results of associates	**443**	496	**5**	38	**–**	–	**448**	534
Impairment losses	**1,258**	2,741	**(64)**	(22)	**–**	–	**1,194**	2,719

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 2018	Year ended 31 December 2017	**31 December 2018**	31 December 2017
	RMB million	*RMB million*	***RMB million***	*RMB million*
Domestic markets	**261,330**	245,230	**323,951**	406,565
Overseas markets	**2,771**	3,516	**21,033**	17,204
	264,101	248,746	**344,984**	423,769

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 RMB181,839 million (2017: RMB174,515 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 2018 and 2017 is set out below:

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	2018 RMB million	2017 RMB million	**2018 RMB million**	2017 RMB million	**2018 RMB million**	2017 RMB million	**2018 RMB million**	2017 RMB million	**2018 RMB million**	2017 RMB million	**2018 RMB million**	2017 RMB million	**2018 RMB million**	2017 RMB million	**2018 RMB million**	2017 RMB million	**2018 RMB million**	2017 RMB million
Coal purchased	**56,321**	49,950	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**56,321**	49,950
Cost of coal production	**42,934**	40,305	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(11,114)**	(7,352)	**31,820**	32,953
Cost of coal transportation	**52,881**	49,726	**–**	–	**16,350**	15,153	**3,166**	2,565	**1,270**	1,130	**–**	–	**–**	–	**(41,915)**	(39,449)	**31,752**	29,125
Power cost	**–**	–	**71,839**	67,756	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(32,097)**	(32,245)	**39,742**	35,511
Cost of coal chemical production	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**4,341**	4,376	**–**	–	**(1,337)**	(1,344)	**3,004**	3,032
Others	**4,007**	3,480	**569**	632	**3,565**	3,479	**345**	315	**1,962**	1,342	**560**	592	**30**	49	**–**	–	**11,038**	9,889
Total cost of sales	**156,143**	143,461	**72,408**	68,388	**19,915**	18,632	**3,511**	2,880	**3,232**	2,472	**4,901**	4,968	**30**	49	**(86,463)**	(80,390)	**173,677**	160,460
Profit from operations *(Note (i))*	**43,262**	46,051	**12,720**	7,399	**17,695**	17,675	**2,325**	2,529	**723**	661	**751**	560	**1,758**	1,536	**(1,037)**	(912)	**78,197**	75,499
Additions to non-current assets *(Note (ii))*	**5,126**	4,566	**12,922**	15,226	**3,740**	5,384	**1,126**	722	**11**	8	**73**	106	**207**	188	**–**	–	**23,205**	26,200
Total assets *(Note (iii))*	**228,641**	225,672	**222,941**	215,910	**129,353**	129,829	**23,735**	24,211	**7,058**	7,865	**9,821**	10,982	**416,213**	381,056	**(446,136)**	(423,923)	**591,626**	571,602
Total liabilities *(Note (iii))*	**(109,845)**	(114,713)	**(158,033)**	(152,157)	**(56,341)**	(65,772)	**(10,094)**	(10,607)	**(636)**	(1,527)	**(1,816)**	(3,619)	**(191,617)**	(169,782)	**345,593**	325,680	**(182,789)**	(192,497)

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 interests in associates, 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	
	2018	2017
	RMB million	*RMB million*
Coal purchased	**56,321**	49,950
Materials, fuel and power	**23,118**	19,523
Personnel expenses	**15,888**	13,842
Depreciation and amortisation	**20,243**	21,576
Repairs and maintenance	**10,025**	9,938
Transportation charges	**16,635**	14,326
Taxes and surcharges	**10,053**	9,640
Other operating costs	**21,394**	21,665
	173,677	160,460

8. OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Government grants	**441**	660
Claim income	**63**	34
Other	**240**	200
	744	894

9. INTEREST INCOME/FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Interest income from:		
– bank deposits	**1,353**	959
– other loans and receivables	**126**	246
Total interest income	**1,479**	1,205
Interest on:		
– borrowings	**5,046**	4,264
– medium-term notes	**236**	954
– bonds	**244**	311
Total finance costs on financial liabilities not at FVTPL	**5,526**	5,529
Less: amount capitalised	**(792)**	(799)
	4,734	4,730
Unwinding of discount	**169**	180
Exchange loss (gain), net	**518**	(494)
Total finance costs	**5,421**	4,416
Net finance costs	**3,942**	3,211

Borrowing costs capitalised during the year arose on the general borrowing pools and were calculated by applying a capitalisation rate from 2.57% to 4.69% (2017: from 2.48% to 4.81%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Current tax	**13,817**	14,172
Under provision in respect of prior years	**1,769**	1,981
Deferred tax	**391**	2
	15,977	16,155

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	
	2018	2017
	RMB million	*RMB million*
Profit before income tax	**70,141**	73,293
Tax at the PRC income tax rate of 25% (2017: 25%)	**17,535**	18,323
Tax effects of:		
– different tax rates of branches and subsidiaries	**(4,194)**	(4,802)
– non-deductible expenses	**1,158**	572
– income not taxable	**(382)**	(175)
– share of results of associates	**(112)**	(128)
– utilisation of tax losses and deductible temporary difference previously not recognised	**(304)**	(518)
– tax losses and deductible temporary difference not recognised	**508**	905
– additional tax in respect of prior years	**1,769**	1,981
– others	**(1)**	(3)
Income tax expense	**15,977**	16,155

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

11. DISPOSAL GROUP HELD FOR SALE

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 assets and liabilities of certain coal-fired power generation entities 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 assets and liabilities attributable to the certain coal-fired power generation companies, which is expected to be contributed within twelve months, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position (see below). The relevant coal-fired power generation entities are included in the Group's power segment as set out in Note 6. The share of equity in the joint venture is expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

The major classes of assets and liabilities classified as held for sale are as follows:

	31 December 2018 *RMB million*
Non-current assets	
Property, plant and equipment *(Note 17)*	**67,319**
Construction in progress *(Note 18)*	**2,106**
Intangible assets *(Note 20)*	**101**
Interests in associates	**1,062**
Equity instruments at FVTOCI	**2**
Other non-current assets	**2,351**
Lease prepayments	**2,303**
Deferred tax assets	**313**
	75,557
Current assets	
Inventories	**1,539**
Accounts and bills receivables	**5,005**
Prepaid expenses and other current assets	**731**
Cash and cash equivalents	**535**
	7,810
Total assets classified as held for sale	**83,367**

11. DISPOSAL GROUP HELD FOR SALE (CONTINUED)

	31 December 2018 *RMB million*
Current liabilities	
Borrowings	**5,349**
Accounts and bills payables	**3,988**
Accrued expenses and other payables	**1,603**
Current portion of long-term liabilities	**12**
Income tax payable	**190**
Contract liabilities	**99**
	11,241
Non-current liabilities	
Borrowings	**18,186**
Long-term liabilities	**286**
Deferred tax liabilities	**201**
	18,673
Total liabilities classified as held for sale	**29,914**

12. PROFIT FOR THE YEAR

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

	Year ended 31 December	
	2018 *RMB million*	2017 *RMB million*
Personnel expenses, including	**29,022**	25,693
– contributions to defined contribution plans of RMB3,469 million (2017: RMB2,886 million)		
Depreciation of property, plant and equipment	**21,619**	23,521
Amortisation of intangible assets, included in cost of sales	**417**	449
Amortisation of lease prepayments, included in cost of sales	**768**	498
Amortisation of other non-current assets	**924**	872
Depreciation and amortisation	**23,728**	25,340
Impairment losses, net of reversal, represent		
– impairment of loan receivables	**26**	N/A
– allowance for doubtful debts	**126**	N/A
	152	–

12. PROFIT FOR THE YEAR (CONTINUED)

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Other gains and losses, represent		
– gains on disposal of property, plant and equipment, exploration and evaluation assets, intangible assets and non-current assets	**(6)**	(317)
– losses on derecognition of assets without considerations	**1,831**	–
– losses on disposal of subsidiaries	**1**	1
– gains on disposal of AFS investments	**–**	(535)
– gains on disposal of wealth management products at FVTPL	**(8)**	–
– losses (gains) on disposal of derivative financial instruments	**6**	(7)
– (gains) losses on changes in fair value of derivative financial instruments	**(22)**	19
– impairment of an AFS investment	**–**	65
– impairment in respect of interest in an associate	**–**	1
– impairment in respect of property, plant and equipment	**691**	1,511
– impairment in respect of construction in progress	**91**	175
– impairment in respect of lease prepayments	**–**	22
– reversal of impairment on loan receivables	**N/A**	(8)
– allowance for doubtful debts	**N/A**	847
– reversal of allowance for prepaid expenses	**(22)**	–
– write down of inventories	**282**	106
	2,844	1,880
Carrying amount of inventories sold	**132,874**	116,464
Operating lease in respect of properties and equipment	**361**	345
Auditors' remuneration		
– audit service	**39**	30

13. 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 2018				
	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*
Chairman					
Ling Wen *(Note (i) and Note (ii))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Executive directors					
Li Dong *(Note (i))*	–	–	–	–	–
Gao Song *(Note (i) and Note (ii))*	–	–	–	–	–
Mi Shuhua *(Note (i) and Note (ii))*	–	–	–	–	–
Han Jianguo *(Note (i) and Note (iii))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Non-executive directors					
Zhao Jibin *(Note (i))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Independent non-executive directors					
Tam Wai Chu, Maria *(Note (ii))*	0.45	–	–	–	0.45
Jiang Bo *(Note (ii))*	0.45	–	–	–	0.45
Zhong Yingjie, Christina *(Note (ii))*	0.45	–	–	–	0.45
Peng Suping *(Note (ii))*	0.26	–	–	–	0.26
Huang Ming *(Note (ii))*	0.26	–	–	–	0.26
Sub-total	1.87	–	–	–	1.87
Supervisors					
Zhai Richeng *(Note (iv))*	–	0.12	0.25	0.04	0.41
Zhou Dayu *(Note (iv))*	–	0.33	0.23	0.04	0.60
Shen Lin *(Note (iv))*	–	0.34	0.22	0.04	0.60
Sub-total	–	0.79	0.70	0.12	1.61
Total					3.48

13. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (CONTINUED)

	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*
Chairman					
Zhang Yuzhuo *(Note (i) and Note (iii))*	–	–	–	–	–
Sub-total	–	–	–	–	–
Executive directors					
Ling Wen *(Note (i) and Note (ii))*	–	–	–	–	–
Han Jianguo *(Note (i) and Note (iii))*	–	–	–	–	–
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, Maria *(Note (ii))*	0.19	–	–	–	0.19
Jiang Bo *(Note (ii))*	0.19	–	–	–	0.19
Zhong Yingjie, Christina *(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

13. 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 2018 and 2017.

(ii) Ms. Tam Wai Chu, Maria, Ms. Jiang Bo and Ms. Zhong, Yingjie, Christina were appointed as independent non-executive directors on 23 June 2017.

Dr. Ling Wen was elected and appointed as the Chairman of the Board on 2 January 2018, and he would no longer serve as the Vice Chairman of the Board and the president of the Company from 2 January 2018.

Mr. Gao Song and Mr. Mi Shuhua were appointed as executive directors on 27 April 2018.

Dr. Peng Suping and Dr. Huang Ming were appointed as independent non-executive directors on 27 April 2018.

(iii) Mr. Zhang Yuzhuo resigned as the Chairman on 27 March 2017.

Mr. Chen Hongsheng resigned as non-executive director on 23 June 2017.

Ms. Fan Hsulaitai, Mr. Gong Huazhang, and Mr. Guo Peizhang resigned as independent non-executive directors on 23 June 2017.

Dr. Han Jianguo resigned as an executive director on 15 May 2018.

(iv) The emoluments of these supervisors were borne by China Energy Group from July to December 2018.

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.

14. EMPLOYEES' EMOLUMENTS

Out of the five individuals with the highest emoluments within the Group, Nil (2017: nil) was director of the Company. The emoluments of the five (2017: five) highest paid individuals were as follows:

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Basic salaries, housing and other allowances and benefits in kind	**2.22**	2.31
Discretionary bonuses	**2.38**	2.12
Retirement scheme contributions	**0.50**	0.41
	5.10	4.84

Their emoluments were within the following band:

	Year ended 31 December	
	2018	2017
HKD500,001 to HKD1,000,000	**1**	0
HKD1,000,001 to HKD1,500,000	**4**	5
	5	5

15. DIVIDENDS

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Dividend approved and paid during the year:		
2017 final – RMB0.91(2017: 2016 final of RMB0.46) per ordinary share	**18,100**	9,149
2016 special – RMB2.51 per ordinary share	**–**	49,923
	18,100	59,072

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of RMB0.88 (in respect of the year ended 31 December 2017: final dividend RMB0.91) per ordinary share has been proposed by the Directors and is subject to approval by the shareholders in the following general meeting.

16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company of RMB44,137 million (2017: RMB47,795 million) and the number of shares in issue during the year of 19,890 million shares (2017: 19,890 million shares).

No diluted earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in existence during both years.

17. 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 2017	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
Additions	59	642	1,129	454	991	–	10	65	3,350
Transferred from construction in progress	5,059	80	362	10,789	543	10	60	41	16,944
Adjustment	(383)	8	169	(865)	(204)	582	(49)	–	(742)
Disposals or write-off	(2,128)	(47)	(2,766)	(1,127)	(461)	–	(3)	(236)	(6,768)
Exchange adjustment	(32)	6	–	77	–	–	–	–	51
Classified as assets held for sale	(30,050)	(3)	–	(92,947)	(63)	–	–	–	(123,063)
At 31 December 2018	**58,469**	**36,926**	**65,239**	**96,224**	**128,156**	**7,489**	**13,195**	**17,690**	**423,388**

17. 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
DEPRECIATION AND IMPAIRMENT									
At 1 January 2017	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)
At 31 December 2017	21,707	12,220	43,120	68,846	39,520	757	5,403	12,073	203,646
Charge for the year	1,883	1,059	4,193	8,107	4,800	450	741	386	21,619
Adjustment	(21)	(7)	168	(9)	(57)	–	–	–	74
Impairment losses *(Note (i))*	252	109	32	264	22	–	12	–	691
Disposals or write-off	(630)	(31)	(2,252)	(959)	(303)	–	(1)	(106)	(4,282)
Exchange adjustment	7	–	–	28	–	–	–	–	35
Classified as assets held for sale	(12,158)	(1)	–	(43,548)	(35)	–	–	(2)	(55,744)
At 31 December 2018	**11,040**	**13,349**	**45,261**	**32,729**	**43,947**	**1,207**	**6,155**	**12,351**	**166,039**
CARRYING VALUES									
At 31 December 2018	**47,429**	**23,577**	**19,978**	**63,495**	**84,209**	**6,282**	**7,040**	**5,339**	**257,349**
At 31 December 2017	64,237	24,020	23,225	110,997	87,830	6,140	7,774	5,747	329,970

Notes:

(i) Impairment loss

Impairment loss for cash-generating units

In 2018, owing to the unsatisfactory performance, the management identified certain non-current assets relating to coal mines having impairment indications. The Group assessed the impairment, each mine is a separate cash-generating unit, by measuring their recoverable amount which is determined based on discounted cash flow analysis covering the shorter of their economic or legal useful life, and pre-tax discount rate ranging from 8.12% to 11.87%.

After assessment, no impairment loss was recognised in both years presented.

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (continued)

(i) Impairment loss (continued)

Impairment loss for individual assets

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 RMB252 million to their recoverable amount as at 31 December 2018 (2017: RMB164 million).

The estimated recoverable amounts of the determined above assets were determined using market comparison approach by reference to either the recent transaction price of similar assets, after taking into account of its remaining useful lives, or the recent transaction price of similar material, after taking into account of its weight and geographical location. The fair value is categorised as a Level 3 measurement.

In 2018, the Group has upgraded its railway capacity which rendered certain non-current assets obsolete. The Group assessed the recoverable amounts of those non-current assets in railway segment, including structures and equipment, and as a result the carrying amount of the structures and equipment was written down by RMB207 million to their recoverable amount as at 31 December 2018.

The estimated recoverable amount of the determined above assets were determined using the recent transaction price of similar materials in the second-hand market, after taking into account of its weight and geographical location. The fair value is categorised as a Level 3 measurement.

Influenced by the policy of coal production capacity withdrawal, Tanggonggou Coal Mine, a coal mine of the Group had been closed down and the related fixed assets had been impaired. In 2018, the management expected that the value of the mining right was unrecoverable, the Group assessed the impairment of the mining rights and estimated the recoverable amount according to the fair value of the assets less the disposal expenses, and an impairment of RMB98 million was recognised.

(ii) The Group's freehold lands with a carrying amount of RMB970 million (2017: RMB950 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 RMB9,314 million as at 31 December 2018 (2017: RMB8,771 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(iv) As at 31 December 2018, the property, plant and equipment with carrying amount of RMB1,058 million (2017: RMB644 million) have been pledged to the banks to secure the banking facilities granted to the Group.

18. CONSTRUCTION IN PROGRESS

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
At the beginning of the year	**39,054**	35,220
Additions	**16,926**	19,273
Transferred to property, plant and equipment	**(16,944)**	(13,819)
Transferred to intangible assets	**(57)**	(49)
Transferred to lease prepayments	**(124)**	(596)
Transferred to other non-current assets	**–**	(281)
Net income from mine trial run	**–**	(356)
Disposal	**(73)**	(163)
Impairment losses	**(91)**	(175)
Classified as assets held for sale *(Note 11)*	**(2,106)**	–
At the end of the year	**36,585**	39,054

As at 31 December 2018, 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.

19. EXPLORATION AND EVALUATION ASSETS

The movements of the exploration and evaluation assets are as follows:

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
At the beginning of the year	**998**	2,344
Exchange adjustments	**8**	32
Disposals	**(55)**	(1,378)
At the end of the year	**951**	998

20. INTANGIBLE ASSETS

The movement of intangible assets, mainly licenses, software and franchises, is as follows:

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
At the beginning of the year	**3,447**	3,018
Exchange adjustment	**4**	(3)
Additions	**678**	915
Transferred from construction in progress	**57**	49
Amortisation	**(417)**	(449)
Disposal	**(45)**	(83)
Classified as assets held for sale *(Note 11)*	**(101)**	–
At the end of the year	**3,623**	3,447

21. INTERESTS IN ASSOCIATES

	31 December 2018	31 December 2017
	RMB million	*RMB million*
Unlisted shares, at cost	**8,170**	7,557
Share of post-acquisition profits and other comprehensive income, net of dividend received	**1,877**	1,956
	10,047	9,513

21. INTERESTS IN ASSOCIATES (CONTINUED)

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 presented. 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:

Name of associate	Proportion of ownership interest and voting power held by the Group		Principal activities
	31 December 2018 %	31 December 2017 %	
Mengxi – Huazhong Railway Co., Ltd. *(Note)*	**10**	10	Provision of transportation service
Shendong Tianlong Group Co., Ltd.	**20**	20	Coal production and sale
Zhejiang Zheneng Jiahua Power Co., Ltd.	**20**	20	Generation and sale of electricity
Sichuan Guangan Power Co., Ltd.	**20**	20	Generation and sale of electricity
Guohua (Hebei) Renewables Co., Ltd.	**25**	25	Generation and sale of electricity
Tianjin Yuanhua Shipping Co., Ltd.	**44**	44	Provision of transportation service
Inner Mongolia Yili Chemical Industry Co., Ltd.	**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 Articles of Association of that company.

22. EQUITY INSTRUMENTS AT FVTOCI

	31 December 2018 *RMB million*
Unlisted investments:	
Equity securities	**811**

The above unlisted equity investments represent the Group's equity interest in entities established in the PRC. The Directors of the Company have elected to designate these equity investments as FVTOCI as it is the Group's strategy to hold these investments for long-term purposes and realising their performance potential in the long run.

23. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2017 *RMB million*
Unlisted investments:	
– equity securities	749
– investments in wealth management products	105
Total	854
Analysed for reporting purposes as:	
Non-current assets	854

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 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.

24. OTHER NON-CURRENT ASSETS

	31 December 2018 ***RMB million***	31 December 2017 *RMB million*
Prepayments in connection with construction work, equipment purchases and others *(Note (i))*	**6,748**	8,189
Prepayment for mining projects	**8,000**	8,000
Deductible VAT and other tax	**1,314**	1,834
Long-term receivable	**–**	318
Loans to China Energy Group and fellow subsidiaries *(Note (ii))*	**8,932**	9,699
Long-term entrusted loans *(Note (iii))*	**420**	420
Goodwill	**278**	889
Others	**3,764**	4,117
	29,456	33,466

Notes:

(i) At 31 December 2018, the Group had prepayments to fellow subsidiaries amounting to RMB42 million (2017: RMB20 million).

(ii) The loans to China Energy Group and fellow subsidiaries bear interest at rates ranging from 4.28% to 4.41% per annum (2017: 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 of 4.75% per annum and variable by reference to the interest rate promulgated by the People's Bank of China (the "PBOC").

25. 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 RMB1,984 million as at 31 December 2018 (2017: RMB2,097 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

As at 31 December 2018, the Group has bank loans secured by the Group's lease prepayments with carrying amount of RMB866 million (31 December 2017: RMB892 million).

26. INVENTORIES

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Coal	**3,546**	4,579
Materials and supplies	**5,302**	5,882
Others *(Note)*	**1,119**	1,186
	9,967	11,647

Note:

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

27. ACCOUNTS AND BILLS RECEIVABLES

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Accounts receivable		
– China Energy Group and fellow subsidiaries	**2,447**	2,377
– Associates	**218**	179
– Third parties	**6,951**	11,802
	9,616	14,358
Less: allowance for credit losses	**(1,128)**	(1,039)
	8,488	13,319
Bills receivable		
– China Energy Group and fellow subsidiaries	**120**	57
– Associates	**70**	54
– Third parties	**4,377**	6,025
	4,567	6,136
	13,055	19,455

27. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

As at 31 December 2018 and 1 January 2018, accounts and bills receivables from contracts with customers amounted to RMB14,183 million and RMB20,494 million, respectively.

Bills receivable were mainly issued by PRC banks and were expiring within one year. As at 31 December 2018, the bills receivable with carrying amount of RMB100 million (2017: RMB388 million) were pledged to secure bills payable.

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

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Less than one year	**5,772**	10,411
One to two years	**846**	1,648
Two to three years	**1,326**	1,027
More than three years	**544**	233
	8,488	13,319

As at 31 December 2018, included in the Group's accounts receivables are debtors with aggregate carrying amount of RMB4,793 million which are past due as at the reporting date. The past due balances are not considered as in default because the debtors are not in significant financial difficulty and the management expects that the debtor is able and likely to pay for the debts. The Group does not hold any collateral over these balances.

The movements of allowance for doubtful debts were as follows:

	Year ended 31 December 2017 *RMB million*
At the beginning of the year	420
Impairment loss	
– recognised	760
– amounts recovered	(140)
Written off	(1)
At the end of the year	1,039

27. ACCOUNTS AND BILLS RECEIVABLES (CONTINUED)

The aging analysis of accounts receivable that are past due but not impaired are as follows:

	31 December 2017 *RMB million*
Less than one year	1,335
One to two years	1,399
Two to three years	377
More than three years	38
At the end of the year	3,149

As at 31 December 2017, receivables that were not overdue or unimpaired relate to a wide range of customers for whom there was no recent history of default.

As at 31 December 2017, 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.

Details of impairment assessment of accounts and bills receivables for the year ended 31 December 2018 are set out in note 40.2.

Included in accounts receivable, the following amounts are denominated in foreign currencies:

	31 December 2018 ***RMB million***	31 December 2017 *RMB million*
United States Dollars *("USD")*	**145**	105
Indonesian Rupiah *("IDR")*	**24**	–
	169	105

Transfers of financial assets

As at 31 December 2018, the Group endorsed bills receivable amounting to RMB1,967 million (2017: RMB1,859 million) to suppliers to settle the accounts payable of same amounts and discounted bills receivable amounting to RMB455 million (2017: RMB137 million) to banks. In accordance to the relevant laws in the PRC, the holders of the bills receivable 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 receivable, and accordingly derecognised the full carrying amounts of the bills receivable, in case of bills receivable endorsed to suppliers, derecognised the associated accounts payable.

28. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December 2018 RMB million	31 December 2017 RMB million
Financial assets at FVTPL		
– Derivative financial instruments	**5**	56
– Tradable wealth management products	**–**	52
– Wealth management products *(Note (i))*	**32,447**	–
	32,452	108
Prepaid expenses and deposits	**7,110**	8,115
Loans and advances to China Energy Group and fellow subsidiaries *(Note (ii))*	**5,877**	5,262
Loans to third parties *(Note (iii))*	**2,992**	–
Amounts due from associates	**361**	535
Deductible VAT and other tax	**3,033**	3,075
Other receivables	**2,877**	3,357
	54,702	20,452

Notes:

(i) As at 31 December 2018, the Group invested RMB21,000 million in principal-guaranteed floating income wealth management products with terms ranging from 182 days to 273 days and expected annual rates of return ranging from 3.10% to 3.90%. The Group invested RMB9,000 million in a principal and income-guaranteed wealth management products with a term of 181 days and the annual rate of return is higher than 3.40%. The Group invested RMB2,447 million in negotiable certificate of deposit with terms ranging from 92 days to 365 days and annual rates of return ranging from 2.75% to 4.35%. The fair values were determined using discounting cash flow approach, the detailed fair value measurements are disclosed in Note 40.3.

(ii) As at 31 December 2018, the Group had loans to China Energy Group and fellow subsidiaries amounting to RMB5,655 million (2017: RMB5,059 million), which bear interest at rates ranging from 3.92% to 4.93% per annum (2017: 3.92% to 4.28% per annum). The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

(iii) As at 31 December 2018, the Group had interbank loans to China Huaneng Finance Co., Ltd amounting to RMB2,955 million, which bear interest rate at 4.93% per annum. As at 31 December 2018, the Group had entrusted loan of RMB37 million to a third party through a PRC state-owned bank, bearing interest at rate of 6.00% per annum.

29. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent statutory deposit reserves at the PBOC, collaterals for bills payable and collaterals related to the operating of mines and ports.

The Group performed impairment assessment on restricted bank deposits and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of pledged bank deposits are set out in Note 40.2.

30. 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, the following amounts are denominated in foreign currencies:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
USD	**809**	776
HKD	**1**	2
Euro	**–**	40
	810	818

As at 31 December 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

Details of impairment assessment of bank deposits are set out in Note 40.2.

31. 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 2018 *RMB million*	31 December 2017 *RMB million*
Deferred tax assets	**3,083**	3,798
Deferred tax liabilities	**(537)**	(749)
	2,546	3,049

31. 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 2018 *RMB million*	Credited (charged) in profit or loss/other comprehensive income *RMB million*	Classified as assets/ liabilities held for sale *RMB million*	At 31 December 2018 *RMB million*
Allowances, primarily for receivables and inventories	526	70	(27)	569
Property, plant and equipment	762	57	(31)	788
Lease prepayments	(167)	16	101	(50)
Tax losses utilised	324	(244)	(18)	62
Tax allowable expenses not yet incurred	1	–	–	1
Unrealised profits from sales within the Group	1,103	(117)	–	986
Accrued salaries and other expenses not yet paid	210	25	(17)	218
Others	290	(198)	(120)	(28)
Net deferred tax assets	3,049	(391)	(112)	2,546

	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 the end of the reporting period, the Group has unused tax losses of RMB7,853 million (31 December 2017: RMB8,564 million) and unrecognised deductible temporary differences of RMB6,685 million (2017: RMB6,555 million) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB321 million (31 December 2017: RMB1,296 million) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB7,532 million (31 December 2017: RMB7,268 million) losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB849 million (31 December 2017: RMB683 million) that will expire in 2019.

32. BORROWINGS

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

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Current borrowings:		
Short-term bank and other borrowings	**2,000**	9,493
Current portion of long-term borrowings	**3,772**	6,292
	5,772	15,785
Non-current borrowings:		
Long-term borrowings, less current portion	**46,765**	64,321
	52,537	80,106
Secured	**5,473**	9,381
Unsecured	**47,064**	70,725
	52,537	80,106

The Group's short-term borrowings are unsecured and bear interest at rates ranging from 3.85% to 4.85% per annum (2017: 3.85% to 4.79% per annum), and long-term borrowings bear interest at rates ranging from 1.08% to 6.55% per annum (2017: 1.08% to 6.55% per annum).

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
The exposure of the long-term borrowings and the contractual maturity dates:		
Within one year	**3,772**	6,292
More than one year, but not exceeding two years	**5,223**	6,141
More than two years, but not exceeding five years	**9,414**	17,089
More than five years	**32,128**	41,091
	50,537	70,613

32. BORROWINGS (CONTINUED)

The Group's long-term borrowings comprise:

		31 December 2018 *RMB million*	31 December 2017 *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	**43,471**	66,357
USD denominated	Interest rates ranging from Libor+0.7% to Libor+2.85% per annum with maturities through 26 December 2034	**5,061**	2,111
Japanese Yen ("JPY") denominated	Interest rates ranging from 1.80% to 2.60% per annum with maturities through 20 March 2031	**1,993**	2,119
Euro denominated	Interest rate at 2.85% per annum with maturities through 22 June 2022	**12**	26
		50,537	70,613
Less: current portion of long-term borrowings		**3,772**	6,292
		46,765	64,321

As at 31 December 2018, included in the above outstanding borrowings, were entrusted loans from China Energy Group and fellow subsidiaries amounting to RMB874 million (2017: RMB1,374 million).

Certain borrowings are secured over certain property, plant and equipment with a carrying amount of RMB1,058 million (2017: RMB644 million) (see Note 17), certain lease prepayments with carrying amounts of RMB866 million (2017: RMB892 million) (see Note 25), 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.

33. MEDIUM-TERM NOTES AND BONDS

On 7 November 2013, the Company issued medium-term notes with proceeds of approximately RMB5,000 million and were paid 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 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 were repaid 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.

34. ACCOUNTS AND BILLS PAYABLES

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Accounts payable		
– China Energy Group, an associate of China Energy Group and fellow subsidiaries	**1,912**	1,874
– Associates	**269**	283
– Third parties	**23,398**	29,431
	25,579	31,588
Bills payable	**1,305**	2,326
	26,884	33,914

As at 31 December 2018 and 2017, certain bills payable were secured by bills receivable held by the Group (see Note 27).

34. ACCOUNTS AND BILLS PAYABLES (CONTINUED)

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

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Less than one year	**17,689**	25,241
One to two years	**5,367**	2,576
Two to three years	**881**	2,431
More than three years	**2,947**	3,666
	26,884	33,914

Included in accounts and bills payables, the following amounts are denominated in foreign currencies:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
USD	**456**	1,398
Euro	**625**	7
JPY	**228**	–
Others	**84**	2
	1,393	1,407

35. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Accrued staff wages and welfare benefits	**3,947**	4,042
Accrued interest payable	**419**	472
Taxes payable other than income tax	**5,655**	7,408
Dividends payable	**1,501**	4,149
Cross-currency exchange rate swaps	**–**	12
Receipts in advances	**–**	5,530
Deposits from China Energy Group and fellow subsidiaries *(Note (i))*	**30,143**	20,075
Other accrued expenses and payables *(Note (ii))*	**11,072**	10,307
	52,737	51,995

35. ACCRUED EXPENSES AND OTHER PAYABLES (CONTINUED)

Notes:

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

(ii) Other accrued expenses and payables of the Group included:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Amounts due to China Energy Group and fellow subsidiaries	**1,095**	1,238
Amounts due to associates	**19**	28
	1,114	1,266

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

36. LONG-TERM LIABILITIES

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Payables for acquisition of mining rights *(Note (i))*	**773**	852
Deferred income *(Note (ii))*	**1,235**	1,367
Defined benefit plans	**9**	128
Others	**532**	290
	2,549	2,637
Analysed for reporting purpose as:		
Current liabilities	**457**	345
Non-current liabilities	**2,092**	2,292
	2,549	2,637

Notes:

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

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

37. ACCRUED RECLAMATION OBLIGATIONS

	Year ended 31 December	
	2018	2017
	RMB million	*RMB million*
At the beginning of the year	**2,745**	2,549
Addition for the year	**294**	58
Accretion expense	**152**	138
At the end of the year	**3,191**	2,745

38. SHARE CAPITAL

	31 December 2018	31 December 2017
	RMB million	*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.

39. 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 2018 was 31% (2017: 34%).

There were no changes in the Group's approach to capital management compared with previous years.

40. FINANCIAL INSTRUMENTS

40.1 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 2018 *RMB million*	31 December 2017 *RMB million*
Financial assets		
Steam coal futures	–	56
Cross-currency exchange rate swaps	5	–
Financial assets at amortised cost	111,433	–
Equity instruments at FVTOCI	811	–
Tradable wealth management products	–	52
Wealth management products	32,447	–
Loans and receivables (including cash and cash equivalents)	–	125,517
AFS investments	–	854
Financial liabilities		
Amortised cost	130,152	164,633

40.2 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 receivables, bank balances, borrowings and payables are denominated in foreign currencies. The Group entered into cross-currency exchange rate swaps with 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. The carrying amounts of the Group's receivables, bank balances, borrowings and payables denominated in foreign currencies are set out in Note 27, 30, 32 and 34, respectively.

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

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	
	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million
USD	5,517	3,286	954	870
JPY	2,221	2,119	–	–
Other currencies	721	35	25	42

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	
	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million
(Decrease) increase in profit after tax for the year:						
– if RMB weakens against foreign currencies	(342)	(198)	(167)	(159)	(52)	–
– if RMB strengthens against foreign currencies	342	198	167	159	52	–

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 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 28, 32 and 33).

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 32 and 28). 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 (2017: 100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would decrease/increase by RMB140 million (2017: decrease/increase by RMB324 million).

Credit risk and impairment assessment

As at 31 December 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group is disclosed in Note 42.3. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and financial guarantee contracts.

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Accounts and bills receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Loan receivables

The credit risks on loan receivables are limited because the counterparties are related parties and other state owned entities with good financial position.

Bank balances

The credit risks on bank balances are limited because the counterparties are banks with high credit ratings assigned by credit-rating agencies, such as China Construction Bank, Industrial and Commercial Bank of China, Bank of China and Agricultural Bank of China.

Other receivables

Other receivables represent pledge and guarantee deposit, dividend receivables and interest receivables. The pledge and guarantee deposit is paid for regular businesses. The dividend receivables relate to the investments of the Company and the interest receivables mainly relate to related parties and stated owned entities. Thus, the credit risk on other receivables are limited.

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Financial guarantee contracts

The credit risks on financial guarantee contracts are limited because the counterparties are state owned entities with good financial position.

The Group does not have any significant concentration of credit risk. Accounts and bills receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The tables below detail the credit risk exposures of the Group's financial assets and financial guarantee contracts, which are subject to ECL assessment:

2018	Notes	External Credit rating	12-month or lifetime ECL	Gross carrying amount RMB million	RMB million
Financial assets at amortised costs					
Loans receivables	24, 28	N/A	12m ECL	18,418	18,418
Restricted bank deposits	29	N/A	12m ECL	8,607	8,607
Bank deposits		AAA	12m ECL	63,598	63,598
Other receivables	28	N/A	12m ECL	568	
			Credit-impaired	2,749	3,317
Accounts and bills receivables – goods and services *(Note (i))*	27	N/A	Lifetime ECL (provision matrix)	11,208	
			Credit-impaired	2,975	14,183
Other items					
Financial guarantee contracts *(Note (ii))*		N/A	12m ECL	190	190

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Financial guarantee contracts (Continued)

Notes:

(i) For accounts and bills receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with credit-impaired, the Group determines the ECL on these items by using a provision matrix, grouped by debtors' aging.

(ii) For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

Provision matrix – debtors' aging

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its receivables from customers in relation to its sales of coal, power, coal chemical products and transportation services because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for accounts and bills receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amounts of RMB2,975 million as at 31 December 2018 were assessed individually.

Gross carrying amount

	Average loss rate	**Accounts and bills receivables** *RMB million*
Current (not past due)	0%	9,390
Less than one year past due	1%	335
One to two years past due	5%	656
Two to three years past due	10%	795
More than three years past due	20%	32
		11,208

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2018, the Group provided RMB114 million impairment allowance for accounts and bills receivables, based on the provision matrix. Reversal of impairment allowance of RMB25 million were made on debtors with credit impaired.

The following table shows the movement in lifetime ECL that has been recognised for accounts and bills receivables under the simplified approach.

	Lifetime ECL (not credit–impaired) *RMB million*	Lifetime ECL (credit-impaired) *RMB million*	Total *RMB million*
As at 1 January 2018	–	1,039	1,039
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	111	–	111
– Impairment losses reversed	–	(25)	(25)
New financial assets originated or purchased	3	–	3
As at 31 December 2018	114	1,014	1,128

Changes in the loss allowance for accounts and bills receivables are mainly due to:

	31 December 2018	
	Increase/(decrease) in lifetime ECL	
	Not credit-impaired ***RMB million***	**Credit-impaired** ***RMB million***
Settlement in full of trade debtors with a gross carrying amount of RMB64 million	**–**	**(25)**

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The following tables show reconciliation of loss allowances that has been recognised for loan receivables.

	12m ECL *RMB million*	Total *RMB million*
As at 1 January 2018	393	393
Changes due to financial instruments recognised as at 1 January:		
– Impairment losses reversed	(99)	(99)
New financial assets originated or purchased	125	125
As at 31 December 2018	419	419

The following tables show reconciliation of loss allowances that has been recognised for other receivables.

	12m ECL (not credit–impaired) *RMB million*	Lifetime ECL (credit-impaired) *RMB million*	Total *RMB million*
As at 1 January 2018	–	417	417
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	120	–	120
– Impairment losses reversed	–	(96)	(96)
– Write-offs	–	(5)	(5)
– Classified as assets held for sale	–	(9)	(9)
New financial assets originated or purchased	13	–	13
As at 31 December 2018	133	307	440

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

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.

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 2018						
	Weighted average interest rate %	On demand or less than 1 year *RMB million*	1–2 years *RMB million*	2–5 years *RMB million*	More than 5 years *RMB million*	Total undiscounted cash flows *RMB million*	Total carrying amount *RMB million*
Financial liabilities:							
Accounts and bills payables, other payables and long-term liabilities		70,224	97	223	421	70,965	70,792
Borrowings variable interest rate	4.61	7,650	6,676	13,276	39,390	66,992	48,442
Borrowings fixed interest rate	3.53	501	693	1,713	2,071	4,978	4,095
Bonds	3.58	2,402	900	399	3,572	7,273	6,823
		80,777	8,366	15,611	45,454	150,208	130,152

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.2 Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	31 December 2017						
	Weighted average interest rate *%*	On demand or less than 1 year *RMB million*	1–2 years *RMB million*	2–5 years *RMB million*	More than 5 years *RMB million*	Total undiscounted cash flows *RMB million*	Total carrying amount *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

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 42.3.

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.3 Fair value measurements

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

	At 31 December 2018 RMB million	At 31 December 2017 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets:				
Steam coal futures	–	56	Level 1	Quoted price in an active market.
Cross-currency exchange rate swaps	5	–	Level 2	Quoted market prices or dealer prices for similar instruments.
Tradable wealth management products	–	52	Level 2	Discounted cash flow. Future cash flows are estimated and discounted based on expected rate of return of comparable products.
Wealth management products	32,447	105	Level 2	Discounted cash flow. Future cash flows are estimated and discounted based on expected rate of return of comparable products.
Equity instruments	811	–	Level 3	Market comparison approach. Fair value is estimated based on value of comparable listed companies, multiples and discount for lack of liquidity.
Financial liabilities:				
Cross-currency exchange rate swaps	–	12	Level 2	Quoted market prices or dealer prices for similar instruments.

There were no transfer between Level 1, Level 2 and Level 3 during the year ended 31 December 2018 and 2017.

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 2018		At 31 December 2017	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
Financial liabilities:				
Fixed rate bank borrowings	3,795	3,864	6,658	6,670
Fixed rate medium-term notes	–	–	4,995	5,009
Fixed rate bonds	6,823	6,818	9,752	9,903

40. FINANCIAL INSTRUMENTS (CONTINUED)

40.3 Fair value measurements (Continued)

Fair value of the Group's 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.

41. 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	**Medium-term notes**	**Bonds**	**Accrued interest payable**	**Total**
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
	Note 32	*Note 33*	*Note 33*	*Note 35*	
At 1 January 2018	**80,106**	**4,995**	**9,752**	**472**	**95,325**
Financing cash flows	**(4,182)**	**(5,000)**	**(3,208)**	**(5,541)**	**(17,931)**
Foreign exchange	**148**	**–**	**268**	**–**	**416**
Amortisation of discount on notes and bonds	**–**	**5**	**11**	**–**	**16**
Interest expenses	**–**	**–**	**–**	**5,526**	**5,526**
Classified as held for sale assets and liabilities	**(23,535)**	**–**	**–**	**(38)**	**(23,573)**
At 31 December 2018	**52,537**	**–**	**6,823**	**419**	**59,779**
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

42. COMMITMENTS AND CONTINGENT LIABILITIES

42.1 Capital commitments

As at 31 December, the Group had capital commitments for land and buildings and equipment as follows:

	31 December 2018 *RMB million*	31 December 2017 *RMB million*
Contracted for but not provided		
– Land and buildings	**17,854**	19,485
– Equipment	**14,853**	14,425
	32,707	33,910

42.2 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 2018 *RMB million*	31 December 2017 *RMB million*
Within one year	**591**	373
After one year but within five years	**1,917**	1,144
After five years	**1,284**	606
	3,792	2,123

42.3 Financial guarantees issued

As at 31 December 2018, 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 RMB171 million (2017: RMB182 million).

As at 31 December 2018, the Group had issued certain guarantees in respect of certain banking facilities granted to an associate of the Group. The maximum amount guaranteed is RMB19 million (31 December 2017: RMB40 million).

42. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

42.4 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.

42.5 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.

43. 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 2018 were RMB3,469 million (2017: RMB2,886 million).

44. RELATED PARTY TRANSACTIONS

44.1 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:

		2018	2017
		RMB million	*RMB million*
Interest income	(i)	**621**	652
Income from entrusted loans	(ii)	**19**	31
Interest expense	(iii)	**328**	248
Purchases of ancillary materials and spare parts	(iv)	**1,295**	776
Mining service income	(v)	**18**	90
Ancillary and social services	(vi)	**1,082**	385
Transportation service income	(vii)	**303**	193
Transportation service expense	(viii)	**93**	–
Sale of coal	(ix)	**16,980**	6,257
Purchase of coal	(x)	**9,750**	9,139
Property leasing	(xi)	**69**	88
Repairs and maintenance services expense	(xii)	**17**	47
Coal export agency expense	(xiii)	**7**	11
Purchase of equipment and construction work	(xiv)	**1,092**	1,119
Sale of coal chemical product	(xv)	**4,535**	4,382
Other income	(xvi)	**2,014**	2,084
Granting of loans from Shenhua Finance	(xvii)	**6,502**	2,281
Repayment of loans from Shenhua Finance	(xviii)	**6,692**	3,067
Granting of entrusted loan	(xix)	**–**	420
Repayment of entrusted loan	(xx)	**–**	627
Net deposits received (paid) by Shenhua Finance	(xxi)	**10,068**	6,583
Loans from China Energy Group	(xxii)	**–**	–
Repayment of loans from China Energy Group	(xxiii)	**500**	3,450

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(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.

(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 to fellow subsidiaries.

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

(x) Purchase of coal represents coal purchased from an associate 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 an associate of the Group and 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 a fellow subsidiary.

(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, an associate of China Energy Group and fellow subsidiaries.

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

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

(xix) Granting of entrusted loan represents an entrusted loan granted.

(xx) Repayment of entrusted loan represents an entrusted loan repaid.

(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;

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(i) (Continued)

- 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.

(ii) The Group has entered into coal supply agreements with an associate of China Energy Group, 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 of China Energy Group 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 of China Energy Group 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 of China Energy Group. 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 of China Energy Group. 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.

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(vii) The Group entered into an agency agreement for the sale of coal with fellow subsidiaries of China Energy Group. The Group is appointed as the exclusive sales agent of fellow subsidiaries of China Energy Group 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 of China Energy Group under which the Group has been granted the right to use certain trademarks. Fellow subsidiaries of China Energy Group 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.

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

	Notes	31 December 2018 (Before reclassification) RMB million	Classified as assets/liabilities held for sale RMB million	31 December 2018 (After reclassification) RMB million	31 December 2017 RMB million
Accounts and bills receivables	27	2,768	1	2,767	2,594
Prepaid expenses and other current assets	28	6,250	12	6,238	5,797
Other non-current assets	24	9,394	–	9,394	10,139
Total amounts due from China Energy Group, an associate of China Energy Group, fellow subsidiaries and associates of the Group		18,412	13	18,399	18,530
Borrowings	32	874	–	874	1,374
Accounts payable	34	2,466	285	2,181	2,157
Accrued expenses and other payables	35	31,263	6	31,257	21,341
Contract liabilities		862	–	862	–
Total amounts due to China Energy Group, an associate of China Energy Group and fellow subsidiaries, and associates of the Group		35,465	291	35,174	24,872

Other than those disclosed in Notes 24, 28, 32 and 35, 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.

44. RELATED PARTY TRANSACTIONS (CONTINUED)

44.2 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:

	2018	2017
	RMB million	*RMB million*
Short-term employee benefits	**8**	10
Post-employment benefits	**1**	1
	9	11

Total remuneration is included in "personnel expenses" as disclosed in Note 12.

44.3 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 43.

44.4 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.

44. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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.

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

	2018 *RMB million*	2017 *RMB million*
Coal revenue	**96,569**	97,212
Power revenue	**85,270**	77,303
Transportation costs	**12,767**	11,501
Interest income	**1,335**	959
Interest expenses (including amount capitalised)	**4,950**	5,461

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

	31 December 2018 (Before reclassification) *RMB million*	Classified as assets/liabilities held for sale *RMB million*	**31 December 2018 (After reclassification)** *RMB million*	31 December 2017 *RMB million*
Accounts and bills receivables	**8,741**	3,070	**5,671**	7,954
Prepaid expenses and other current assets	**3,671**	56	**3,615**	683
Cash and time deposits at banks	**64,118**	535	**63,583**	73,728
Restricted bank deposits	**8,607**	–	**8,607**	7,348
Borrowings	**74,809**	23,535	**51,274**	78,326
Accrued expenses and other payables	**1,999**	112	**1,887**	2,915
Contract liabilities	**790**	–	**790**	–

45. EVENTS AFTER THE REPORTING PERIOD

For the joint venture to be established pursuant to the agreement between the Company and the GD Power, as disclosed in Note 11, the date of commercial and industrial registration of the joint venture company was 3 January 2019, and the contribution was completed on 31 January 2019 (the" Completion Date"). From the Completion Date, the joint venture company assumes the corresponding rights and the obligations of the relevant coal-fired power generation entities contributed by the Company and GD Power to the joint venture company.

On 30 January 2019, China Energy Group, the controlling shareholder of the Company, has completed the transfer of 358,932,628 A shares (approximately 1.805% of the share capital of the Company) to Beijing Chengtong Financial Investment Co., Ltd. and 358,932,628 A shares (approximately 1.805% of the share capital of the Company) to Guoxin Investment Co., Ltd. for nil consideration. These equity transfers do not have any change in the controlling shareholder of the Company.

On 22 March 2019, the Directors proposed a final dividend of RMB0.88 per ordinary share totaling RMB17,503 million to the equity holders of the Company. Further details are disclosed in Note 15.

46. 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 2018 %	31 December 2017 %	
Shenhua Sales Group Co., Ltd.	PRC	Limited company	RMB1,889 million	100	100	Trading of coal
Shenwan Energy Co., Ltd.	PRC	Limited company	RMB5,732 million	51	51	Trading of coal
Shenhua Shendong Coal Group Co., Ltd.	PRC	Limited company	RMB4,989 million	100	100	Trading of 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

46. 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 2018 %	31 December 2017 %	
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
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

46. 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 2018 %	31 December 2017 %	
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
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

46. SUBSIDIARIES (CONTINUED)

Details of the Company's material subsidiaries (Continued)

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 USD1,000 million of bonds, which are set out in Note 33, 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%.

46. 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 2018 %	31 December 2017 %	Year ended 31 December 2018 RMB million	2017 RMB million	31 December 2018 RMB million	31 December 2017 RMB million
Shenwan Energy Co., Ltd.	PRC	49	49	281	205	4,357	4,076
Shenhua Zhunge'er Energy Co., Ltd.	PRC	42	42	1,333	1,415	13,244	12,075
Shenhua Baorixile Energy Industrial Co., Ltd.	PRC	43	43	619	457	2,327	2,231
Hebei Guohua Cangdong Power Co., Ltd.	PRC	49	49	207	175	1,378	1,328
Dingzhou Power	PRC	59	59	433	331	1,915	1,795
Shenhua Sichuan Energy Co., Ltd.	PRC	49	49	(85)	(125)	1,336	1,424
Shuohuang Railway Development Co., Ltd.	PRC	47	47	3,536	3,587	17,048	15,021
Shenhua Zhonghai Shipping Co., Ltd.	PRC	49	49	259	227	3,161	3,105
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	PRC	20	20	157	114	1,580	1,544
Shenhua Huanghua Harbour Administration Co., Ltd.	PRC	30	30	365	506	3,079	3,085
Shenhua Guohua International Power Co., Ltd.	PRC	30	30	67	302	2,900	2,989
Zhejiang Guohua Zheneng Power Generation Co., Ltd.	PRC	40	40	364	298	2,233	2,138
Individually immaterial subsidiaries with non-controlling interests						22,586	22,753
						77,144	73,564

46. 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 2018 RMB million	31 December 2017 RMB million	31 December 2018 RMB million	31 December 2017 RMB million	31 December 2018 RMB million	31 December 2017 RMB million	31 December 2018 RMB million	31 December 2017 RMB million
Current assets	1,547	1,302	21,269	18,119	3,293	2,774	691	1,029
Non-current assets	14,633	12,492	17,595	18,012	4,893	5,125	5,215	5,557
Current liabilities	2,451	3,050	6,950	7,075	2,648	2,589	2,151	2,786
Non-current liabilities	4,837	2,425	560	470	176	168	942	1,089
Total equity	8,892	8,319	31,354	28,586	5,362	5,142	2,813	2,711

	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million	2018 RMB million	2017 RMB million
Revenue	7,547	6,894	15,062	14,316	4,806	3,567	4,070	4,146
Expenses	6,724	6,339	11,146	10,585	3,064	2,227	3,499	3,679
Profit and total comprehensive income for the year	573	419	3,156	3,349	1,427	1,054	423	358
Dividend paid to non-controlling interests	508	105	–	–	340	142	158	296
Net cash inflow from operating activities	1,131	517	2,135	3,008	1,852	1,939	1,324	901
Net cash (outflow) inflow from investing activities	(2,040)	(959)	(2,360)	(2,832)	(12)	(95)	(22)	197
Net cash inflow (outflow) from financing activities	1,014	436	(3)	(20)	(1,002)	(532)	(1,302)	(1,098)
Net cash inflow (outflow)	105	(6)	(228)	156	838	1,312	–	–

46. 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 2018 *RMB million*	31 December 2017 *RMB million*	**31 December 2018** *RMB million*	31 December 2017 *RMB million*	**31 December 2018** *RMB million*	31 December 2017 *RMB million*	**31 December 2018** *RMB million*	31 December 2017 *RMB million*
Current assets	**1,079**	1,240	**1,500**	774	**10,602**	10,283	**928**	1,288
Non-current assets	**4,716**	5,048	**6,054**	6,111	**32,182**	30,819	**6,185**	6,634
Current liabilities	**1,735**	2,503	**2,810**	1,827	**4,688**	7,439	**615**	1,538
Non-current liabilities	**841**	769	**2,018**	2,151	**2,038**	1,892	**46**	48
Total equity	**3,219**	3,016	**2,726**	2,907	**36,058**	31,771	**6,452**	6,336

	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2018 *RMB million*	2017 *RMB million*	**2018** *RMB million*	2017 *RMB million*	**2018** *RMB million*	2017 *RMB million*	**2018** *RMB million*	2017 *RMB million*
Revenue	**4,231**	4,104	**1,391**	1,055	**19,748**	19,070	**4,089**	3,247
Expenses	**3,266**	3,352	**1,578**	1,281	**9,667**	8,940	**3,381**	2,641
Profit (loss) and total comprehensive income for the year	**727**	557	**(173)**	(255)	**7,479**	7,587	**529**	463
Dividend paid to non-controlling interests	**311**	465	**–**	–	**1,527**	2,759	**202**	62

Net cash inflow (outflow) from operating activities	**1,380**	766	**(415)**	(256)	**7,804**	7,481	**1,572**	752
Net cash (outflow) inflow from investing activities	**(47)**	65	**(144)**	(658)	**(2,846)**	(2,665)	**(22)**	(26)
Net cash (outflow) inflow from financing activities	**(1,333)**	(831)	**497**	431	**(5,343)**	(4,588)	**(1,320)**	(757)
Net cash (outflow) inflow	**–**	–	**(62)**	(483)	**(385)**	228	**230**	(31)

46. 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 2018	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017	**31 December 2018**	31 December 2017
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Current assets	**999**	936	**2,462**	2,013	**2,468**	2,545	**1,316**	1,826
Non-current assets	**10,177**	10,972	**12,974**	13,722	**15,015**	15,909	**8,932**	9,687
Current liabilities	**2,373**	2,889	**2,720**	2,621	**4,454**	5,647	**2,164**	3,223
Non-current liabilities	**905**	1,301	**2,454**	2,830	**3,361**	2,844	**2,502**	2,945
Total equity	**7,898**	7,718	**10,262**	10,284	**9,668**	9,963	**5,582**	5,345

	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue	**8,172**	6,849	**4,753**	4,519	**11,054**	10,758	**7,604**	7,310
Expenses	**7,107**	6,068	**3,099**	2,604	**10,627**	10,566	**6,386**	6,292
Profit and total comprehensive income for the year	**787**	571	**1,215**	1,685	**222**	84	**909**	746
Dividend paid to non-controlling interests	**122**	–	**357**	288	**36**	137	**268**	372
Net cash inflow from operating activities	**1,679**	1,947	**2,375**	1,968	**1,523**	2,390	**2,474**	1,736
Net cash (outflow) inflow from investing activities	**(48)**	(124)	**(421)**	156	**77**	(523)	**(75)**	(642)
Net cash outflow from financing activities	**(1,633)**	(1,822)	**(2,169)**	(2,011)	**(1,549)**	(2,221)	**(2,399)**	(1,096)
Net cash (outflow) inflow	**(2)**	1	**(215)**	113	**51**	(354)	**–**	(2)

47. INFORMATION ABOUT THE FINANCIAL POSITION AND RESERVES OF THE COMPANY

	NOTE	**31 December 2018** ***RMB million***	31 December 2017 *RMB million*
Non-current assets			
Property, plant and equipment		**44,724**	48,713
Construction in progress		**3,521**	3,067
Intangible assets		**854**	572
Investments in subsidiaries		**120,344**	139,138
Investments in associates		**7,640**	5,283
AFS investments		**–**	569
Equity investments at FVTOCI		**646**	–
Other non-current assets		**32,325**	33,829
Lease prepayments		**3,161**	3,074
Deferred tax assets		**352**	240
Total non-current assets		**213,567**	234,485
Current assets			
Inventories		**3,379**	3,167
Accounts and bills receivables		**12,662**	11,977
Prepaid expenses and other current assets		**67,055**	44,481
Restricted bank deposits		**793**	938
Time deposits with original maturity over three months		**9,200**	4,650
Cash and cash equivalents		**49,282**	59,154
		142,371	124,367
Assets classified as held for sale		**23,859**	–
Total current assets		**166,230**	124,367

47. INFORMATION ABOUT THE FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

	NOTE	31 December 2018 RMB million	31 December 2017 RMB million
Current liabilities			
Borrowings		**11,120**	7,271
Accounts and bills payables		**7,716**	6,476
Accrued expenses and other payables		**88,998**	73,778
Current portion of long-term liabilities		**154**	5,196
Income tax payable		**1,256**	2,867
Contract liabilities		**73**	–
		109,317	95,588
Liabilities associated with assets classified as held for sale		**378**	–
Total current liabilities		**109,695**	95,588
Net current assets		**56,535**	28,779
Total assets less current liabilities		**270,102**	263,264
Non-current liabilities			
Borrowings		**3,617**	4,744
Long-term liabilities		**1,248**	720
Accrued reclamation obligations		**1,498**	1,285
Total non-current liabilities		**6,363**	6,749
Net assets		**263,739**	256,515
Equity			
Share capital	38	**19,890**	19,890
Reserves		**243,849**	236,625
Total equity		**263,739**	256,515

47. 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 2017	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 15)*	–	–	–	–	(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
Adjustments arising from initial application of IFRS 9 and IFRS 15	–	–	–	(555)	555	–
At 1 January 2018	85,001	20,996	5	1,126	129,497	236,625
Profit for the year	–	–	–	–	25,242	25,242
Other comprehensive income	–	–	82	–	–	82
Total comprehensive income for the year	–	–	82	–	25,242	25,324
Dividend declared *(Note 15)*	–	–	–	–	(18,100)	(18,100)
Appropriation of maintenance and production funds	–	3,740	–	–	(3,740)	–
Utilisation of maintenance and production funds	–	(2,343)	–	–	2,343	–
At 31 December 2018	85,001	22,393	87	1,126	135,242	243,849

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 2018, the aggregate amount of retained earnings determined in accordance with the China Accounting Standards available for distribution to equity holders of the Company was RMB132,711 million (2017: RMB124,576 million).

Section XIV Documents Available for Inspection

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

Ling Wen, Chairman

Approval date of the board of directors for submission: 22 March 2019

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 2018 Annual Report of the Company, all directors, supervisors and senior management are of the opinion that information disclosed in the 2018 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)

(Li Dong)

(Gao Song)

(Mi Shuhua)

(Zhao Jibin)

(Tam Wai Chu, Maria)

(Peng Suping)

(Jiang Bo)

(Zhong Yingjie, Christina)

(Huang Ming)

Supervisors

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

Senior Management

(Zhang Jiming)	(Xu Mingjun)	(Jia Jinzhong)
(Huang Qing)	(Zhang Guangde)	(Xu Shancheng)

China Shenhua Energy Company Limited
22 March 2019

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				
	2014 *RMB Million*	2015 *RMB Million*	2016 *RMB Million*	2017 *RMB Million*	**2018** ***RMB Million***
Revenue	253,081	177,069	183,127	248,746	**264,101**
Cost of sales	(178,109)	(123,341)	(124,843)	(160,460)	**(173,677)**
Gross profit	74,972	53,728	58,284	88,286	**90,424**
Selling expenses	(794)	(584)	(610)	(612)	**(725)**
General and administrative expenses	(8,460)	(9,218)	(8,023)	(9,115)	**(9,854)**
Research and development costs	(375)	(496)	(400)	(341)	**(454)**
Other gains and losses	(770)	(5,856)	(3,078)	(1,880)	**(2,844)**
Other income	939	1,659	1,379	894	**744**
Impairment losses, net of reversal	–	–	–	–	**(152)**
Other expenses	(419)	(626)	(1,511)	(1,262)	**(3,504)**
Interest income	803	608	723	1,205	**1,479**
Finance costs	(4,459)	(5,123)	(5,748)	(4,416)	**(5,421)**
Share of results of associates	410	428	237	534	**448**
Profit before income tax	61,847	34,520	41,253	73,293	**70,141**
Income tax	(12,784)	(9,561)	(9,283)	(16,155)	**(15,977)**
Profit for the year	49,063	24,959	31,970	57,138	**54,164**
Profit for the year attributable to:					
Equity holders of the Company	39,301	17,649	24,910	47,795	**44,137**
Non-controlling interests	9,762	7,310	7,060	9,343	**10,027**
Earnings per share *(RMB)*					
– Basic	1.976	0.887	1.252	2.403	**2.219**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2014 *RMB Million*	2015 *RMB Million*	2016 *RMB Million*	2017 *RMB Million*	**2018** ***RMB Million***
Total non-current assets	431,226	438,755	443,266	438,958	**358,330**
Total current assets	119,646	121,036	133,463	132,644	**233,296**
Total assets	550,872	559,791	576,729	571,602	**591,626**
Total current liabilities	110,778	101,487	112,185	115,905	**123,381**
Total non-current liabilities	74,524	94,383	79,575	76,592	**59,408**
Total liabilities	185,302	195,870	191,760	192,497	**182,789**
Net assets	365,570	363,921	384,969	379,105	**408,837**
Equity attributable to equity holders of the Company	300,698	298,068	316,975	305,541	**331,693**
Non-controlling interests	64,872	65,853	67,994	73,564	**77,144**
Total equity	365,570	363,921	384,969	379,105	**408,837**

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