中国神华
CHINA SHENHUA

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

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

(Stock Code: 01088)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue of the Group in 2016 were RMB183,127 million, representing an increase of RMB6,058 million or 3.4% over 2015.
- Profit for the year attributable to equity holders of the Company in 2016 was RMB24,910 million, representing an increase of RMB7,261 million or 41.1% over 2015.
- Basic earnings per share was RMB1.252.
- The Board recommend the payment of: (1) a final dividend in cash of RMB0.46 per share or RMB9,149 million for the year of 2016; and (2) a special dividend in cash of RMB2.51 per share or RMB49,923 million.

The Board of China Shenhua Energy Company Limited (the "Company") presented the annual results of the Company and its subsidiaries (the "Group" or "China Shenhua") for the year ended 31 December 2016 and reported our performance for the year.

FINANCIAL INFORMATION

Financial information extracted from the audited consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards ("IFRSs"):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Revenue	**183,127**	177,069
Cost of sales	**(124,843)**	(123,341)
Gross profit	**58,284**	53,728
Selling expenses	**(610)**	(584)
General and administrative expenses	**(8,423)**	(9,714)
Other gains and losses	**(3,078)**	(5,856)
Other income	**1,379**	1,659
Other expenses	**(1,511)**	(626)
Interest income	**723**	608
Finance costs	**(5,748)**	(5,123)
Share of results of associates	**237**	428
Profit before income tax	**41,253**	34,520
Income tax expense	**(9,283)**	(9,561)
Profit for the year	**31,970**	24,959

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Other comprehensive income (expense) for the year		
Item that will not be reclassified to profit or loss, net of income tax:		
Remeasurement of defined benefit obligations	**21**	(21)
Items that may be reclassified subsequently to profit or loss, net of income tax:		
Exchange differences	**311**	192
Share of other comprehensive income (expense) of associates	**60**	(22)
	371	170
Other comprehensive income for the year, net of income tax	**392**	149
Total comprehensive income for the year	**32,362**	25,108
Profit for the year attributable to:		
Equity holders of the Company	**24,910**	17,649
Non-controlling interests	**7,060**	7,310
	31,970	24,959
Total comprehensive income for the year attributable to:		
Equity holders of the Company	**25,272**	17,783
Non-controlling interests	**7,090**	7,325
	32,362	25,108
Earnings per share *(RMB)*		
– Basic	**1.252**	0.887

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Non-current assets		
Property, plant and equipment	**337,785**	339,326
Construction in progress	**35,220**	33,610
Exploration and evaluation assets	**2,344**	2,176
Intangible assets	**3,018**	2,964
Interest in associates	**5,142**	5,113
Available-for-sale investments	**1,800**	1,795
Other non-current assets	**36,749**	34,562
Lease prepayments	**17,359**	16,535
Deferred tax assets	**3,849**	2,674
Total non-current assets	**443,266**	438,755
Current assets		
Inventories	**13,341**	12,816
Accounts and bills receivable	**20,573**	41,019
Prepaid expenses and other current assets	**48,792**	19,351
Restricted bank deposits	**6,141**	4,611
Time deposits with original maturity over three months	**3,428**	916
Cash and cash equivalents	**41,188**	42,323
Total current assets	**133,463**	121,036
Current liabilities		
Borrowings	**11,811**	12,812
Short-term debenture	**–**	4,998
Accounts and bills payable	**35,156**	33,990
Accrued expenses and other payables	**41,361**	47,519
Current portion of medium-term notes	**19,989**	–
Current portion of long-term liabilities	**403**	203
Income tax payable	**3,465**	1,965
Total current liabilities	**112,185**	101,487
Net current assets	**21,278**	19,549
Total assets less current liabilities	**464,544**	458,304

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Non-current liabilities		
Borrowings	**58,462**	54,179
Medium-term notes	**4,985**	24,955
Bonds	**10,331**	9,651
Long-term liabilities	**2,451**	2,523
Accrued reclamation obligations	**2,549**	2,197
Deferred tax liabilities	**797**	878
Total non-current liabilities	**79,575**	94,383
Net assets	**384,969**	363,921
Equity		
Share capital	**19,890**	19,890
Reserves	**297,085**	278,178
Equity attributable to equity holders of the Company	**316,975**	298,068
Non-controlling interests	**67,994**	65,853
Total equity	**384,969**	363,921

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Equity attributable to equity holders of the Company									
	Share capital *RMB million*	Share premium *RMB million*	Capital reserve *RMB million*	Exchange reserve *RMB million*	Statutory reserves *RMB million*	Other reserves *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2015	19,890	85,001	3,612	(353)	16,071	(8,570)	185,047	300,698	64,872	365,570
Profit for the year	–	–	–	–	–	–	17,649	17,649	7,310	24,959
Other comprehensive income (expense) for the year	–	–	–	177	–	(43)	–	134	15	149
Total comprehensive income (expense) for the year	–	–	–	177	–	(43)	17,649	17,783	7,325	25,108
Dividend declared	–	–	–	–	–	–	(14,718)	(14,718)	–	(14,718)
Appropriation of maintenance and production funds	–	–	–	–	5,381	–	(5,381)	–	–	–
Utilisation of maintenance and production funds	–	–	–	–	(3,699)	–	3,699	–	–	–
Appropriation of general reserve	–	–	–	–	250	–	(250)	–	–	–
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(4)	(4)
Acquisition of subsidiaries from Shenhua Group	–	–	–	–	–	(5,695)	–	(5,695)	–	(5,695)
Contributions from non-controlling shareholders	–	–	–	–	–	–	–	–	2,288	2,288
Distributions to non-controlling shareholders	–	–	–	–	–	–	–	–	(8,628)	(8,628)
At 31 December 2015	19,890	85,001	3,612	(176)	18,003	(14,308)	186,046	298,068	65,853	363,921

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
OPERATING ACTIVITIES		
Profit before income tax	**41,253**	34,520
Adjustments for:		
Depreciation and amortisation	**24,721**	23,990
Other gains and losses	**3,078**	5,856
Interest income	**(723)**	(608)
Share of results of associates	**(237)**	(428)
Interest expenses	**5,062**	4,483
Fair value changes on financial instruments	**(2)**	6
Exchange loss, net	**688**	649
Other income	**–**	(56)
Operating cash flows before movements in working capital	**73,840**	68,412
(Increase) decrease in inventories	**(1,076)**	2,214
Decrease (increase) in accounts and bills receivable	**20,084**	(10,309)
Decrease in prepaid expenses and other receivables	**1,146**	5,116
Increase (decrease) in accounts and bills payable	**2,925**	(5,021)
(Decrease) increase in accrued expenses and other payables	**(6,267)**	5,754
Cash generated from operations	**90,652**	66,166
Income tax paid	**(8,769)**	(10,760)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**81,883**	55,406

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
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	**(28,264)**	(29,685)
Increase in lease prepayments	**(794)**	(191)
Proceeds from disposal of property, plant and equipment, intangible assets and other non-current assets	**649**	640
Proceeds from disposal of associates	**35**	3
Proceeds from disposal of debt securities	**–**	400
Proceeds from disposal of wealth management products	**160**	–
Proceeds from disposal of derivative financial instruments	**23**	–
Investments in wealth management products	**(33,350)**	(160)
Investments in associates	**(104)**	(48)
Purchase of derivative financial instruments	**(2)**	–
Purchase of tradable wealth management products	**(50)**	–
Dividend received from associates	**375**	309
Interest received	**710**	590
(Increase) decrease in restricted bank deposits	**(1,530)**	1,660
Increase in time deposits with original maturity over three months	**(5,026)**	(1,265)
Maturity of time deposits with original maturity over three months	**2,514**	1,624
NET CASH USED IN INVESTING ACTIVITIES	**(64,654)**	(26,123)

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
FINANCING ACTIVITIES		
Interest paid	**(5,600)**	(5,730)
Proceeds from borrowings	**28,037**	26,458
Repayments of borrowings	**(24,927)**	(22,756)
Net proceeds from short-term debentures and medium-term notes	**–**	14,985
Net proceeds from bonds	**–**	9,049
Repayments of short-term debentures and medium-term notes	**(5,000)**	(20,000)
Proceeds from bills discounted	**435**	–
Contributions from non-controlling shareholders	**1,111**	2,288
Distributions to non-controlling shareholders	**(6,181)**	(7,343)
Dividend paid to equity holders of the Company	**(6,365)**	(14,718)
Cash paid for acquisition of a subsidiary under common control	**–**	(5,386)
Acquisition of non-controlling interests	**–**	(4)
NET CASH USED IN FINANCING ACTIVITIES	**(18,490)**	(23,157)
Net (decrease) increase in cash and cash equivalents	**(1,261)**	6,126
Cash and cash equivalents, at the beginning of the year	**42,323**	35,962
Effect of foreign exchange rate changes	**126**	235
Cash and cash equivalents, at the end of the year	**41,188**	42,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements, except for the application of Amendment to IAS 1 Disclosure Initiative. The application resulted in reordering Segment and Other Information to give prominence to areas of the Group's activities that management considers to be most relevant to an understanding of the Group's consolidated financial performance and financial position.

2. REVENUE

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Coal revenue	**98,126**	82,726
Power revenue	**68,935**	71,347
Transportation revenue	**4,610**	3,827
Coal chemical revenue	**4,293**	5,005
	175,964	162,905
Other revenue	**7,163**	14,164
	183,127	177,069

3. SEGMENT AND OTHER INFORMATION

Segment results

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

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 2016 and 2015 is set out below:

	Coal		Power		Railway		Port		Shipping		Coal chemical		Segment total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	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	**102,283**	93,502	**69,613**	72,768	**4,174**	3,420	**575**	317	**380**	541	**4,831**	5,547	**181,856**	176,095
Inter-segment revenue	**29,074**	27,956	**237**	285	**29,356**	23,812	**4,465**	3,452	**1,732**	1,461	**–**	3	**64,864**	56,969
Reportable segment revenue	**131,357**	121,458	**69,850**	73,053	**33,530**	27,232	**5,040**	3,769	**2,112**	2,002	**4,831**	5,550	**246,720**	233,064
Reportable segment profit	**16,084**	5,883	**10,001**	17,628	**13,283**	9,862	**2,049**	868	**192**	48	**5**	342	**41,614**	34,631
Including:														
Interest expenses	**1,517**	1,320	**1,882**	2,048	**1,189**	637	**433**	473	**86**	103	**197**	275	**5,304**	4,856
Depreciation and amortisation	**7,936**	9,280	**9,550**	8,477	**4,635**	3,887	**1,037**	922	**292**	285	**938**	903	**24,388**	23,754
Share of results of associates	**50**	24	**153**	391	**–**	–	**8**	7	**–**	–	**–**	–	**211**	422
Impairment loss	**823**	3,076	**1,855**	1,819	**2**	879	**–**	–	**31**	–	**60**	–	**2,771**	5,774

Reconciliations of reportable segment revenue, segment profit and other items of profit or loss for the years ended 31 December 2016 and 2015 are set out below:

	Reportable segment amounts		Unallocated head office and corporate items		Elimination of inter-segment amounts		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Revenue	**246,720**	233,064	**2,237**	1,838	**(65,830)**	(57,833)	**183,127**	177,069
Profit before income tax	**41,614**	34,631	**154**	(215)	**(515)**	104	**41,253**	34,520
Interest expenses	**5,304**	4,856	**1,920**	2,483	**(2,162)**	(2,871)	**5,062**	4,468
Depreciation and amortisation	**24,388**	23,754	**333**	236	**–**	–	**24,721**	23,990
Share of results of associates	**211**	422	**26**	6	**–**	–	**237**	428
Impairment loss	**2,771**	5,774	**44**	(1)	**(8)**	–	**2,807**	5,773

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, interest 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 interest in associates.

	Revenue from external customers		**Specified non-current assets**	
	Year ended 31 December		**31 December**	31 December
	2016	2015	**2016**	2015
	RMB million	*RMB million*	***RMB million***	*RMB million*
Domestic markets	**179,859**	175,129	**412,502**	414,513
Overseas markets	**3,268**	1,940	**9,113**	5,173
	183,127	177,069	**421,615**	419,686

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 represents RMB137,294 million (2015: RMB132,736 million) of the Group's.

Other information

Certain other information of the Group's segments for the years ended 31 December 2016 and 2015 is set out below:

	Coal		Power		Railway		Port		Shipping		Coal chemical		Unallocated items		Eliminations		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB million	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*	***RMB million***	*RMB million*
Coal purchased	**26,286**	17,264	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**26,286**	17,264
Cost of coal production	**36,584**	40,098	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(7,664)**	(9,318)	**28,920**	30,780
Cost of coal transportation	**42,221**	38,488	**–**	–	**14,708**	12,570	**2,271**	1,886	**948**	1,176	**–**	–	**–**	–	**(44,060)**	(39,320)	**16,088**	14,800
Power cost	**–**	–	**53,456**	48,965	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(12,352)**	(8,299)	**41,104**	40,666
Cost of coal chemical production	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**3,797**	4,182	**–**	–	**(401)**	(300)	**3,396**	3,882
Others	**4,313**	11,643	**483**	823	**2,642**	2,025	**252**	140	**759**	584	**533**	538	**67**	196	**–**	–	**9,049**	15,949
Total cost of sales	**109,404**	107,493	**53,939**	49,788	**17,350**	14,595	**2,523**	2,026	**1,707**	1,760	**4,330**	4,720	**67**	196	**(64,477)**	(57,237)	**124,843**	123,341
Profit from operations *(note (iii))*	**17,017**	6,433	**11,689**	18,810	**15,000**	10,070	**2,302**	1,350	**266**	133	**254**	649	**1,261**	808	**(1,345)**	(596)	**46,444**	37,657
Additions to non-current assets *(note (i))*	**5,835**	7,001	**17,829**	19,805	**3,819**	6,529	**1,746**	1,387	**7**	138	**95**	531	**47**	35	**–**	–	**29,378**	35,426
Total assets *(note (ii))*	**198,140**	246,972	**207,879**	229,773	**125,152**	124,661	**22,489**	22,303	**8,038**	8,189	**11,621**	12,564	**377,853**	348,720	**(374,443)**	(433,391)	**576,729**	559,791
Total liabilities *(note (ii))*	**(116,711)**	(115,814)	**(134,519)**	(131,373)	**(65,396)**	(61,284)	**(10,135)**	(10,950)	**(2,063)**	(2,363)	**(4,686)**	(5,593)	**(137,179)**	(185,478)	**278,929**	316,985	**(191,760)**	(195,870)

Notes:

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

(ii) 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.

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

4. COST OF SALES

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Coal purchased	**26,286**	17,264
Materials, fuel and power	**16,405**	15,816
Personnel expenses	**12,661**	11,874
Depreciation and amortisation	**21,744**	21,134
Repairs and maintenance	**9,509**	8,619
Transportation charges	**10,172**	12,193
Taxes and surcharges	**6,922**	5,833
Other operating costs	**21,144**	30,608
	124,843	123,341

5. INTEREST INCOME/FINANCE COSTS

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Interest income from:		
– bank deposits	**691**	448
– other loans and receivables	**32**	156
– debt securities	**–**	4
Total interest income	**723**	608

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Interest on:		
– borrowings	**3,896**	3,638
– short-term debenture	**18**	583
– medium-term notes	**1,289**	1,311
– bonds	**329**	310
Total finance costs on financial liabilities not at fair value through profit or loss	**5,532**	5,842
Less: amount capitalised	**643**	1,518
	4,889	4,324
Unwinding of discount	**173**	144
Exchange loss, net	**688**	649
Fair value changes on financial instruments	**(2)**	6
Total finance costs	**5,748**	5,123
Net finance costs	**5,025**	4,515

Borrowing costs capitalised during the year arose on the general borrowing pools and were calculated by applying a capitalisation rate from 2.48% to 4.63% (2015: from 2.55% to 6.20%) per annum to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Current tax, mainly PRC enterprise income tax ("EIT")	**10,378**	10,214
Over provision in respect of prior years	**161**	224
Deferred tax	**(1,256)**	(877)
	9,283	9,561

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	
	2016	2015
	RMB million	*RMB million*
Profit before income tax	**41,253**	34,520
Tax at PRC income tax rate of 25% (2015: 25%)	**10,313**	8,630
Tax effects of:		
– different tax rates of branches and subsidiaries	**(2,209)**	(1,235)
– non-deductible expenses	**636**	325
– income not taxable	**(65)**	(32)
– share of results of associates	**(59)**	(107)
– utilisation of tax losses and deductible temporary difference previously not recognised	**(190)**	(24)
– tax losses and deductible temporary difference not recognised	**704**	1,798
– additional tax in respect of prior years	**161**	224
– others	**(8)**	(18)
Income tax expense	**9,283**	9,561

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate applicable for PRC group entities is 25% (2015: 25%) except for Group's overseas subsidiaries and branches as well as subsidiaries operating in the western developing region of the PRC which are entitled to a preferential tax rate of 15% from 2011 to 2020.

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

	Year ended 31 December	
	2016	2015
	%	*%*
Australia	**30.0**	30.0
Indonesia	**25.0**	25.0
Russia	**20.0**	20.0
Hong Kong	**16.5**	16.5

During the year ended 31 December 2016 and 2015,there was no significant assessable profit and provision for income tax for the overseas subsidiaries.

7. PROFIT FOR THE YEAR

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

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Personnel expenses, including – contributions to defined contribution plans of RMB2,728 million (2015: RMB2,791 million)	**20,844**	20,067
Depreciation of property, plant and equipment	**22,813**	21,639
Amortisation of intangible assets, included in cost of sales	**414**	329
Amortisation of lease prepayments, included in cost of sales	**429**	396
Amortisation of other non-current assets	**1,065**	1,626
Depreciation and amortisation	**24,721**	23,990

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Other gains and losses, represent		
– losses on disposal of property, plant and equipment, intangible assets and non-current assets	**304**	83
– gains on disposal of associates	**(17)**	–
– gains on disposal of derivative financial instruments	**(11)**	–
– gains on disposal of a subsidiary	**(5)**	–
– impairment of interest in associates	**1**	–
– impairment in respect of properties, plant and equipment	**1,725**	3,834
– impairment in respect of construction in progress	**22**	651
– impairment of loans receivable	**22**	2
– allowance for doubtful debts	**388**	300
– write down of inventories	**551**	950
– impairment in respect of other non-current assets	**–**	36
– impairment in respect of goodwill	**98**	–
	3,078	5,856
Carrying amount of inventories sold	**86,149**	82,673
Operating lease in respect of properties and equipment	**301**	219
Auditors' remuneration		
– audit service	**32**	22

8. DIVIDENDS

	Year ended 31 December	
	2016	2015
	RMB million	*RMB million*
Dividend approved and paid during the year:		
2015 final – RMB0.32		
(2015: 2014 final of RMB0.74)		
per ordinary share	**6,365**	14,718

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of RMB0.46 (final dividend in respect of the year ended 31 December 2015: RMB0.32) per ordinary share has been proposed by the Directors and is subject to approval by the shareholders in the following general meeting.

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company of RMB24,910 million (2015: RMB17,649 million) and the number of shares in issue during the year of 19,890 million shares (2015: 19,890 million shares).

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

10. ACCOUNTS AND BILLS RECEIVABLE

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

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Less than one year	**13,035**	21,756
One to two years	**1,996**	1,401
Two to three years	**1,010**	162
More than three years	**138**	51
	16,179	23,370

11. ACCOUNTS AND BILLS PAYABLE

The following is an aging analysis of accounts payable, presented based on invoice date:

	31 December 2016 *RMB million*	31 December 2015 *RMB million*
Less than one year	**26,296**	25,585
One to two years	**4,184**	3,922
Two to three years	**2,320**	3,305
More than three years	**2,356**	1,178
	35,156	33,990

12. EVENTS AFTER THE REPORTING PERIOD

On 17 March 2017, the Board of Directors proposed: (i) a final dividend in respect of the year ended 31 December 2016 of RMB0.46 per ordinary share totaling RMB9,149 million; (ii) a special dividend of RMB2.51 per ordinary share totaling RMB49,923 million to the equity holders of the Company. The proposal of dividend is subject to approval by the shareholders in the following general meeting.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am delighted to present the 2016 annual report of China Shenhua and to report to all shareholders on the Company's performance for the period.

In 2016, the national economy has been steady amidst slowdown trend and improved smoothly. The supply-side reform of the coal industry was proactively promoted and preliminary outcome was seen in the progress of resolving excess production capacities. Affected by dual influence of market and policy on adjusting production volume, there was improvement in the severe imbalance between the demand for and supply of coal while the market price has considerably rebounded, resulting in a better operating situation of coal enterprises. The power consumption of the whole society grew at a faster pace as compared with the previous year, however, thermal power enterprises were under increasing pressure in their operations due to the relative overcapacity of thermal power supply and rising cost of power generation.

Facing fluctuating market trend, based on the clean energy development strategy, the staff at all levels of China Shenhua have worked together to spare no efforts in structural optimisation, market expansion and cost control, thereby achieving good operating results. In 2016, the Company recorded operating revenue of RMB183,127 million, profit for the year of RMB31,970 million, profit for the year attributable to equity holders of the Company of RMB24,910 million and basic earnings per share of RMB1.252, representing a year-on-year increase of 3.4%, 28.1%, 41.1% and 41.1%, respectively.

As at 31 December 2016, the total market capitalisation of China Shenhua reached US$44.9 billion, ranking the first among all listed coal companies worldwide and the fourth among all listed integrated mining companies globally. It was also awarded the CCTV Top 10 Listed Companies in China for 2016 (2016 CCTV 中國十佳上市公司). International credit rating agencies, including Moody's and Fitch, maintained the sovereign rating of the international credit rating of China Shenhua.

2016: seizing market opportunities, optimising operation units and creating favorable operating results

Promoting clean energy development strategy proactively and developing new characteristics of business structure

The Company strived to achieve clean production, clean transformation and clean utilisation of coal with efforts in promoting the clean development of conventional energy. It continued to adjust industrial layout and develop new characteristics of the business structure according to market changes. In accordance with the International Financial Reporting Standards, before elimination on consolidation, the Company realised a profit from operations of RMB17,017 million from the coal business, RMB17,568 million from the transportation business and RMB11,689 million from the power business for the year, representing 36%, 38% and 25% of the total profit from operations, respectively. The effective operation of the three business segments improves the overall competitiveness and adaptability of the Company to changes of market trend.

Optimising the operation, exploring markets, and achieving integrated and efficient operation

Coal segment: The Company arranged production in a reasonable manner in accordance with the industry policy and the changes in relationship between supply and demand in the markets. It organized its production orderly in compliance with laws and regulations in response to the changes in policies on production capacities. The production volume of commercial coal reached 289.8 million tonnes for the year, representing a year-on-year increase of 3.2%.

The Company seized the opportunities brought by changes in coal market, timely adjusted the price and strategy of coal sale and strengthened the expansion of new markets including "the movement towards the shipping route from the northern sea to the Yangtze River" and transit bases, in order to elevate the market shares. It focused on raising the sales volume of the seaborne coal with the highest unit gross profit margin and enhanced the organisation of coal procured externally, in turn maximising the sales efficiency. The sales volume of coal reached 394.9 million for the year, representing a year-on-year increase of 6.6%, of which seaborne coal reached 226.4 million tonnes, representing a year-on-year increase of 11.1%.

Power segment: The Company continued to strengthen the management of the reliability of the power generators and strived for a higher amount of power generation to ensure the stability of the power business. The gross power generation reached 236.04 billion kWh while the total power output dispatch reached 220.57 billion kWh, representing a year-on-year increase of 4.5% and 4.8%, respectively.

Against the backdrop of overall slowdown in the national thermal power market, the Company actively addressed to the power market reform, established regional power output dispatch companies and actively participated in the market competition of direct power purchase by large power users to maintain its market share. The average utilisation hours of coal-fired power generators were 4,428 hours, surpassing the national average utilisation hours of thermal power generators by 263 hours.

Transportation segment: The Company proactively addressed to the fluctuation of the coal market, allocated the transportation resources in a scientific manner, and enhanced the management over the integration between the upstream and downstream industries, so as to improve service quality and ensure the efficient synergy of the integration.

Coal chemical segment: The Company continued to optimise the production plan, heighten the production efficiency and actively develop sales channels in order to achieve the operational stability. The sales volume of coal-to-olefins products reached 574.7 thousand tonnes for the year.

Promoting "macroscopic logistics" and proactively achieving new profit growth areas

The Company proactively developed transportation resources. On the basis of delivering a sound performance in the transportation of its own coal, it progressively opened transportation capacity to the public by utilising the transportation network comprising Bazhun Railway and Zhunchi Railway, thereby opening up a new phase of the transition of its transportation system from railways designated for coal transportation towards the "macroscopic logistics" permeating Shenhua.

The Company increased the number of trains with the capacity of 10,000 tonnes, effectively increased turnover of trains and enhanced the coal transportation efficiency, which significantly increased the transportation capacity of railways and the volume of seaborne coal at its own ports. It established long-term strategic partnership with major customers through efficient and convenient transportation services, thus excess transportation capacities were fully utilised. The Company's own railways had a freight turnover of 244.6 billion tonne km, whilst the seaborne coal volume at the Company's own ports reached 201.3 million tonnes, representing a year-on-year increase of 22.2% and 27.0%, respectively. The coal shipping volume at Huanghua Port increased significantly, being the largest port for seaborne coal volume domestically for the first time.

The Company positively carried out "macroscopic logistics" transportation business in a long-distance and pendulum manner and took the initiative to expand the scale of transportation of non-coal materials and reverse transportation in order to improve the profitability of the transportation segment. The transportation services of the railway segment provided to third parties generated revenue of 4,174 million, representing a year-on-year increase of 22.0%.

Strengthening technological innovation and promoting clean development

The Company continued to promote the "ultra-low emission" renovation of coal-fired generating units and was the first among power companies to complete the "ultra-low emission" renovation for all coal-fired generating units in Beijing, Tianjin, Hebei and Anhui areas, leading the clean coal power generation development in China. The "ultra-low emission" renovation of 16,460MW coal-fired generating units was completed, and the total installed capacity of coal-fired generating units with "ultra-low emission" technology reached 36,770MW, accounting for 67.6% of the total installed capacity of all coal-fired power generating units of the Company. The emission performance for flue gas, sulphur dioxide and nitrogen oxides and of thermal power generators for the year were and 0.021g/kWh, 0.096g/kWh and 0.16g/kWh respectively, which signified the encouraging result of the prevention and control on air pollution. As of the end of the year, 48 "ultra-low emission" coal-fired generating units were supported by policies including tariff subsidies, which facilitated profit realisation of the power business of the Company under the market slowdown.

The Company accelerated the promotion of the establishment of digital mines and ecological construction and explored green and efficient production methods of coal. Key Technical and Demonstrative Project for the Construction of Smart Coal Mines was awarded National Scientific and Technology Award – Second Prize. The national key laboratory for "Preservation and Utilisation of Water Resources in Coal Mining" was officially established and a research and development system for clean coal was gradually formed, which support the sustainable clean development of the coal business of the Company.

Implementing refined management and achieving outstanding performance in cost control

The strict implementation of a budget control system and quarterly assessment of cost and profit indicators resulted in a significant effect in controlling costs of principal business segments. The unit production cost of self-produced coal for the year amounted to RMB109.6/tonne, representing a year-on-year decrease of 11.0%, which was better than that predicted at the beginning of the year.

The Company continued to optimise capital and debt structure, exercise effective management over accounts and notes receivable. By conducting specific investigations on current accounts and assets as well as controlling finance cost effectively with refined management, the capital risk was reduced. It vigorously promoted the structural reform and optimisation of material management and proactively promoted the communal storage and usage of materials of coal, power and transportation businesses in order to control the increase in the inventory, striving to make materials management a "third profit source".

Proactively fulfilling social responsibility and achieving safe and green development

The Company practically promoted the construction of risk prevention and safety control system, made more efforts in safety control and inspection, and strengthened the implementation of accountability for safety management, thereby elevating the level of production safety. The fatality rate per million tonnes of coal mines was 0 in 2016, for which China Shenhua maintained a world-leading level in respect of safety production in the industry.

By setting up a comprehensive on-line monitoring platform, strengthening the equipment upgrade and renovation continuously and devoting more efforts to checks and rectification of hidden safety hazards, the level of energy conservation and environmental protection of the Company was effectively raised. In 2016, the Company invested a total amount of RMB2.605 billion in energy conservation and environmental protection projects, which were mainly used in environmental protection projects such as removal of sulphur oxides, nitrogen oxides and dust and energy conservation projects such as boiler improvement.

The reduction of carbon emission was actively promoted and Company-wide investigations and examination of carbon were completed. The filings of voluntary emission reduction projects were systematically carried out for the year, which laid a solid foundation to cope with the changes in policies on carbon emissions reduction and carbon transactions.

For more information about our social responsibility efforts, please refer to the "2016 Corporate Social Responsibility Report" of the Group.

2017: optimising operation and organisation, improving quality while enhancing efficiency comprehensively and accelerating the promotion of clean and efficient development

In 2017, it is expected that the global economy will be unstable with increasing uncertainties and slow recovery. The organic growth of the domestic economy will still require reinforcement. The PRC government will adhere to the general principle of making progress while ensuring stability. With the key target of promoting the supply-side reform, it will properly expand the overall demand to facilitate stable and healthy development of the economy. The government will endeavour to resolve excess production capacities of coal and safeguard the dynamic balance between demand and supply of coal by eliminating the outdated production capacities, adjusting the production volume and taking other measures in response to changes in market demand. The coal price for the year will be subject to volatility based on the contract coal price. The trend of relatively excess supply of thermal power will continue and power generation costs will rise, the competition among power generation enterprises will increase.

China Shenhua will firmly adopt the clean energy development strategy as the leading strategy to further leverage core competitiveness of the integrated operation, enhance the coordination and organisation of coal production, transportation and marketing, strictly control the increase in costs and endeavour to achieve the operating targets. Key emphasis will be placed on the following aspects:

Coordinating the production, transportation and marketing to further improving the operational efficiency. Firstly, the Company will proactively implement the policy of excess capacity elimination, optimise the production units and raise the production volume of the type of coal with good quality and high economic efficiency based on the relationship between supply and demand. It will strive to secure the fulfilment of contract coal based on the market environment, support the relative stability of coal price, endeavour to raise the sales volume of seaborne coal with the greatest cost-efficiency and increase its efforts to promote e-commerce sale, in a bid to increase the market share and ensure the sales revenue. Secondly, on the basis of strengthening the refined management of power plants, the Company will actively promote the business of direct power purchase by large internal and external power users and keep promoting the establishment of a marketing system which is in line with the market practice, which strive to raise power output dispatch volume and the higher average level of utilisation hours of generators than those of the same type of generators in the same regions. Thirdly, on the basis of maintaining the cooperation with the existing key customers in macroscopic logistics business. The Company will seek potential quality customers featured by reverse transportation, bulk cargoes, long distance and mass transportation volume to further improve its economic benefits.

Accelerating the implementation of clean energy development strategy. Firstly, the Company will continue to increase its efforts in coal quality management, endeavour to develop clean coal products and expand the regions by where clean coal will be replaced. It will continue to promote the construction of smart and green digital mines, and push forward the technological reform for a safe, green, efficient and environmental-friendly mine industry. Secondly, the Company will further accelerate the "ultra-low emission" renovation of coal-fired generators and strive to achieve "ultra-low emission" of all coal-fired generators in the eastern and central regions. the Company plans to complete the "ultra-low emission" renovation of 12 coal-fired generators with the total capacity of approximately 7,820MW to build a "green" model in coal-fired power industry. Thirdly, it promotes the development of the logistic industry under the "Internet+" logistics model, thus providing the society with green, convenient and economical transportation channels.

Optimising the asset structure and enhancing efficiency while increasing quality on an on-going basis. Firstly, the Company makes full use of existing resources to improve its profitability. It will continue to devote its efforts to controlling costs and strive to achieve a continuous year-on-year decrease in the unit production cost of self-produced coal and the controllable costs of other business segments remain constant as compared to last year. The Company will further vitalise its assets to improve asset operational efficiency. Secondly, it will strengthen the planning and management of capital expenditure and strictly control project investment for sustainable development. The Company will optimise the risk assessment for project commencement and the tracking and evaluation mechanism for economic benefits of key projects to further the risk control and management level of investment projects. According to the investment return analysis on the total life cycle of projects, it will properly arrange the construction schedule of projects to ensure the construction progress of quality projects. The Company will proactively promote the project construction including the renovation of the 300 million tonne expansion capacity project of Shenshuo Railway and the construction of Huangda Railway. The coal-fired power projects of Sumsel-1 Coal Power (2×300MW) and Jawa-7 Coal Power (2×1,000MW) in Indonesia will proceed in an orderly manner.

Focusing on safety and environmental protection and technological innovation to strengthen the ability of sustainable development. The Company strengthen the accountability for safety production with a focus on implementing the safety overhaul and devoting more efforts to checks and rectification of hidden safety hazards, striving to remain "zero fatality" in its safety production. It will continuously optimise assessment and accountability mechanisms and on-line monitoring platform of environmental safety, improve the work in energy conservation and environmental protection in the whole industrial chain to prevent incidents relating to environmental protection from happening. The Company will increase its investments in scientific research and leverage the technological innovation to grasp the core technologies with their own intellectual property rights, in order to accelerate the industrialization of the technology innovation outcome.

In 2017, China Shenhua will work pragmatically with steady confidence. It will facilitate the in integration of various businesses and realise a healthy and sustainable development in order to create greater value for investors.

Zhang Yuzhuo
Chairman

17 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Company's Operating Results

Operation Data

		2016	2015	Change %
Commercial coal production	million tonnes	**289.8**	280.9	3.2
Coal sales	million tonnes	**394.9**	370.5	6.6
Including: Self-produced coal	million tonnes	**285.5**	289.3	(1.3)
Purchased coal	million tonnes	**109.4**	81.2	34.7
Gross power generation	billion kWh	**236.04**	225.79	4.5
Total power output dispatch	billion kWh	**220.57**	210.45	4.8
Polyethylene sales	thousand tonnes	**292.6**	319.2	(8.3)
Polypropylene sales	thousand tonnes	**282.1**	312.9	(9.8)
Transportation turnover of self-owned railway	billion tonne km	**244.6**	200.1	22.2
Seaborne coal	million tonnes	**226.4**	203.8	11.1
Shipping volume	million tonnes	**79.2**	79.8	(0.8)
Shipment turnover	billion tonne nm	**63.0**	64.1	(1.7)

Financial Indicators

		2016	2015	Change %
Revenue	RMB million	**183,127**	177,069	3.4
Profit for the year	RMB million	**31,970**	24,959	28.1
EBITDA	RMB million	**70,762**	62,597	13.0
Profit for the year attributable to equity holders of the Company	RMB million	**24,910**	17,649	41.1
Basic earnings per share	RMB/share	**1.252**	0.887	41.1
Net cash generated from operating activities	RMB million	**81,883**	55,406	47.8
Net cash generated from operating activities excluding Shenhua Finance Company	RMB million	**92,564**	46,341	99.7

Commercial Coal Production

	2016	2015	Change
	million tonnes	*million tonnes*	%
Total production	**289.8**	280.9	3.2
By mines			
Shendong Mines	**183.0**	177.0	3.4
Zhunge'er Mines	**62.9**	63.6	(1.1)
Shengli Mines	**16.0**	12.1	32.2
Baorixile Mines	**25.0**	25.1	(0.4)
Baotou Mines	**1.1**	1.2	(8.3)
Others	**1.8**	1.9	(5.3)
By regions			
Inner Mongolia	**191.1**	183.2	4.3
Shaanxi	**92.7**	92.1	0.7
Shanxi	**4.2**	3.7	13.5
Overseas	**1.8**	1.9	(5.3)

Domestic Coal Sales

		2016	Proportion of domestic sales	2015	Change
		million tonnes	%	*million tonnes*	%
Domestic sales		**386.2**	100.0	365.5	5.7
By region	Northern China	**185.6**	48.1	210.8	(12.0)
	Eastern China	**126.2**	32.7	95.8	31.7
	Central China and Southern China	**46.6**	12.0	38.9	19.8
	Northeast China	**24.9**	6.4	19.1	30.4
	Others	**2.9**	0.8	0.9	222.2
By usage	Thermal coal	**289.2**	74.9	244.2	18.4
	Metallurgy	**6.7**	1.7	6.0	11.7
	Chemical (including coal slurry)	**32.3**	8.4	31.2	3.5
	Others	**58.0**	15.0	84.1	(31.0)

Railway Turnover

	2016 *billion tonnes km*	2015 *billion tonnes km*	Change %
Self-owned railways	**244.6**	200.1	22.2
Shenshuo Railway	**49.2**	45.6	7.9
Shuohuang-Huangwan Railway	**154.3**	118.7	30.0
Dazhun Railway	**24.2**	25.7	(5.8)
Baoshen Railway	**7.3**	7.8	(6.4)
Ganquan Railway	**0.9**	0.5	80.0
Bazhun Railway	**1.2**	0.4	200.0
Zhunchi Railway	**7.5**	1.4	435.7
Tahan Railway	**–**	–	/
State-owned railways	**26.6**	41.3	(35.6)
Total railway turnover	**271.2**	241.4	12.3

Seaborne Coal in Ports

	2016 *million tonnes*	2015 *million tonnes*	Change %
Self-owned ports	**201.3**	158.5	27.0
Huanghua Port	**158.6**	111.6	42.1
Shenhua Tianjin Coal Dock	**39.5**	40.3	(2.0)
Shenhua Zhuhai Coal Dock	**3.2**	6.6	(51.5)
Third-party ports	**25.1**	45.3	(44.6)
Total seaborne coal	**226.4**	203.8	11.1

Power Generation Business

Power plants	Regional grid	Location	Gross power generation	Total power output dispatch	Average utilisation hours	Standard coal consumption rate for power output dispatch	Power tariff	Total installed capacity as at 31 December 2015	Increase/ (decrease) in installed capacity for 2016	Total installed capacity as at 31 December 2016	Equity installed capacity as at 31 December 2016
			100 million kWh	*100 million kWh*	*hours*	*g/kWh*	*RMB/mWh*	*MW*	*MW*	*MW*	*MW*
Zhunge'er Power	North China Power Grid	Inner Mongolia	36.3	32.1	3,784	385	198	960	–	960	554
Guohua Zhunge'er	North China Power Grid	Inner Mongolia	48.4	43.6	3,669	314	207	1,320	–	1,320	639
Guohua Hulunbei'er Power	Northeast Power Grid	Inner Mongolia	46.4	41.5	3,864	328	229	1,200	–	1,200	960
Shendong Power	Northwest/North China/ Shaanxi Provincial Local Power Grid	Inner Mongolia	297.1	273.8	3,629	340	251	8,187	–	8,187	7,534
Cangdong Power	North China Power Grid	Hebei	139.0	132.4	5,515	304	297	2,520	–	2,520	1,285
Sanhe Power	North China Power Grid	Hebei	63.3	58.9	4,870	296	304	1,300	–	1,300	501
Dingzhou Power	North China Power Grid	Hebei	137.5	127.2	5,457	317	301	2,520	–	2,520	1,021
Taishan Power	South China Power Grid	Guangdong	177.5	165.9	3,550	313	375	5,000	–	5,000	4,000
Huizhou Thermal	South China Power Grid	Guangdong	30.6	27.7	4,642	328	380	660	–	660	660
Zheneng Power	East China Power Grid	Zhejiang	198.8	187.8	4,518	303	342	4,400	–	4,400	2,640
Zhoushan Power	East China Power Grid	Zhejiang	43.6	40.8	4,792	342	347	910	–	910	464
Shenwan Energy	East China Power Grid	Anhui	214.8	204.5	4,669	301	301	4,600	–	4,600	2,346
Taicang Power	East China Power Grid	Jiangsu	66.0	63.2	5,241	298	315	1,260	–	1,260	630
Chenjiagang Power	East China Power Grid	Jiangsu	68.8	65.6	5,212	288	310	1,320	–	1,320	726
Xuzhou Power	East China Power Grid	Jiangsu	103.9	98.6	5,193	289	313	2,000	–	2,000	2,000
Suizhong Power	Northeast Power Grid	Liaoning	164.1	153.7	4,365	311	300	3,760	–	3,760	1,880
Fujian Energy	East China Power Grid	Fujian	105.1	99.8	4,589	308	304	3,240	(540)	2,700	1,324
Jinjie Energy	North China Power Grid	Shaanxi	147.5	135.3	6,144	325	244	2,400	–	2,400	1,680
Shenmu Power	Northwest Power Grid	Shaanxi	9.0	7.9	4,094	382	296	220	–	220	112
Shenhua Sichuan Energy (coal-fired power)	Sichuan Power Grid	Sichuan	24.0	21.6	1,901	332	375	1,260	–	1,260	604
Mengjin Power	Central China Power Grid	Henan	44.4	41.8	3,701	308	307	1,200	–	1,200	612
Shouguang Power	North China Power Grid	Shandong	25.6	24.1	5,034	290	294	–	2,000	2,000	1,200
Panshan Power	North China Power Grid	Tianjin	52.9	49.6	4,994	314	331	1,060	–	1,060	482
Ningdong Power	Northwest Power Grid	Ningxia	34.2	30.6	5,184	359	205	660	–	660	660
Liuzhou Power	Guangxi Power Grid	Guangxi	2.1	1.9	3,095	320	328	–	700	700	364
EMM Indonesia	PLN	Indonesia	16.4	14.3	5,470	369	476	300	–	300	210
Total for coal-fired power plants/weighted average			2,297.3	2,144.2	4,428	315	301	52,257	2,160	54,417	35,089
Other power plants											
Zhuhai Wind Energy	South China Power Grid	Guangdong	0.3	0.3	1,952	–	596	16	–	16	12
Shenhua Sichuan Energy (hydropower)	Sichuan Provincial Local Power Grid	Sichuan	6.7	6.5	5,331	–	223	125	–	125	48
Beijing Gas-fired Power	North China Power Grid	Beijing	40.1	39.1	4,218	211	509	950	–	950	950
Yuyao Power	East China Power Grid	Zhejiang	16.0	15.6	2,055	231	608	780	–	780	624

Reserve

Mines	Coal resources (under PRC standard)			Recoverable reserve (under PRC standard)			Marketable reserve (under JORC standard)		
	As at 31 December 2016	As at 31 December 2015	Change	**As at 31 December 2016**	As at 31 December 2015	Change	**As at 31 December 2016**	As at 31 December 2015	Change
	100 million tonnes	*100 million tonnes*	*%*	***100 million tonnes***	*100 million tonnes*	*%*	***100 million tonnes***	*100 million tonnes*	*%*
Shendong Mines	**164.5**	166.6	(1.3)	**95.4**	97.6	(2.3)	**51.6**	41.9	23.2
Zhunge'er Mines	**40.1**	40.7	(1.5)	**32.2**	32.8	(1.8)	**21.7**	19.3	12.4
Shengli Mines	**20.6**	20.7	(0.5)	**14.1**	14.2	(0.7)	**2.5**	7.3	(65.8)
Baorixile Mines	**14.4**	14.6	(1.4)	**12.2**	12.4	(1.6)	**12.6**	12.8	(1.6)
Baotou Mines	**0.5**	0.5	–	**0.4**	0.4	–	**0.1**	0.1	–
Total of China Shenhua	**240.1**	243.1	(1.2)	**154.3**	157.4	(2.0)	**88.5**	81.4	8.7

Breakdown of Shipping Volume

	2016	2015	Change
	million tonnes	*million tonnes*	*%*
Shenhua Zhonghai Shipping Company			
The Group's internal customers	**60.7**	52.3	16.1
External customers	**18.5**	27.5	(32.7)
Total of shipping volume	**79.2**	79.8	(0.8)

Summary of Operations in 2016

In 2016, the demand and supply in the coal industry had been towards balance, while the competition increased in the power industry. Under the complex and changing business environment, China Shenhua organized operation delicately, intensified its efforts to explore new market opportunities, prioritized seaborne coal sales, enhanced marketing efforts in the power segment, improved the utilisation rate of transportation assets, and strengthened cost control, which enabled the Company to meet its annual business objectives.

The Group recorded a profit for the year of RMB31,970 million in 2016 (2015: RMB24,959 million); a profit for the year attributable to equity holders of the Company of RMB24,910 million (2015: RMB17,649 million); and basic earnings per share of RMB1.252/share (2015: RMB0.887/share), representing a year-on-year increase of 41.1%.

		Actual amount for 2016	Target for 2016 *(after adjustments)*	Proportion of completion *(%)*	Actual amount for 2015 *100 million tonnes*	Year-on-year change *(%)*
Commercial coal production	100 million tonnes	**2.898**	2.8	103.5	2.809	3.2
Coal sales	100 million tonnes	**3.949**	3.55	111.2	3.705	6.6
Total power output dispatch	Billion kWh	**220.57**	211.40	104.3	210.45	4.8
Revenue	RMB100 million	**1,831.27**	1,560	117.4	1,770.69	3.4
Cost of sales	RMB100 million	**1,248.43**	1,104	113.1	1,233.41	1.2
Selling, general and administrative expenses and net finance costs	RMB100 million	**140.58**	150	93.7	148.13	(5.1)
Changes in unit production costs of self-produced coal	/	**Year-on-year decrease of 11.0%**	Year-on-year decrease of 5%	/	Year-on-year decrease of 6.7%	/

Note: Upon the approval at the 18th meeting of the third session of the Board of the Company, the Company has made adjustments to the operating target for 2016 pursuant to industry policies and based on market environment and operation of the Company.

Major financial indicators of the Group for 2016 are as follows:

		2016	2015	Change *(%)*
Return on total assets as at the end of the period	%	**5.5**	4.5	Increased by 1.0 percentage point
Return on net assets as at the end of the period	%	**7.9**	5.9	Increased by 2.0 percentage points
EBITDA	RMB million	**70,762**	62,597	13.0

		As at 31 December 2016	As at 31 December 2015	Change *(%)*
Equity attributable to equity holders per share	RMB/share	**15.94**	14.99	6.3
Gearing ratio	%	**33.2**	35.0	Decreased by 1.8 percentage points
Total debt to total debt and total equity ratio	%	**22.0**	23.1	Decreased by 1.1 percentage points

Analysis on principal business

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

Unit: RMB million

Items	**2016**	2015	Change *(%)*
Revenue	**183,127**	177,069	3.4
Cost of sales	**(124,843)**	(123,341)	1.2
General and administrative expenses	**(8,423)**	(9,714)	(13.3)
Other gains and losses	**(3,078)**	(5,856)	(47.4)
Other income	**1,379**	1,659	(16.9)
Other expenses	**(1,511)**	(626)	141.4
Interest income	**723**	608	18.9
Finance costs	**(5,748)**	(5,123)	12.2
Share of results of associates	**237**	428	(44.6)
Income tax	**(9,283)**	(9,561)	(2.9)
Net cash generated from operating activities	**81,883**	55,406	47.8
Of which: Net cash (used in)/ generated from operating activities of Shenhua Finance Company[Note]	**(10,681)**	9,065	(217.8)
Net cash generated from operating activities excluding the effect of Shenhua Finance Company	**92,564**	46,341	99.7
Net cash used in investing activities	**(64,654)**	(26,123)	147.5
Net cash used in financing activities	**(18,490)**	(23,157)	(20.2)

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.

2. *Revenue and costs*

(1) Factors affecting the revenue

The revenue of the Group in 2016 recorded a year-on-year increase of 3.4%. The main reasons for such change are:

① The enhancement of effort in the sales of purchased coal by making good use of self-owned transportation of the Group, resulting in a year-on-year increase of 6.6% in the sales of coal to 394.9 million tonnes for the year 2016 (2015: 370.5 million tonnes). Affected by the recovery of the market, the average sales price of coal was RMB317 per tonne (2015: RMB293 per tonne), representing a year-on-year increase of 8.2%;

② The power output dispatch of the Group in 2016 was 220.57 billion kWh (2015: 210.45 billion kWh), representing a year-on-year increase of 4.8%; being affected by the decrease in on-grid tariff, the average power tariff of the Group was RMB307/MWh (2015: RMB334/MWh), representing a year-on-year decrease of 8.1%;

③ A decrease in the materials trading business volume.

Major operating indicators	Unit	**2016**	2015	Changes for 2016 compared with that for 2015 *(%)*	2014
(I) Coal					
1. Commercial coal production	Million tonnes	**289.8**	280.9	3.2	306.6
2. Coal sales	Million tonnes	**394.9**	370.5	6.6	451.1
Of which:					
Self-produced coal	Million tonnes	**285.5**	289.3	(1.3)	298.7
Purchased coal	Million tonnes	**109.4**	81.2	34.7	152.4
(II) Power generation					
1. Gross power generation	Billion kWh	**236.04**	225.79	4.5	234.38
2. Total power output dispatch	Billion kWh	**220.57**	210.45	4.8	218.42
(III) Coal chemical					
1. Sales of polyethylene	Thousand tonnes	**292.6**	319.2	(8.3)	265.5
2. Sales of polypropylene	Thousand tonnes	**282.1**	312.9	(9.8)	268.1

Major operating indicators	Unit	**2016**	2015	Changes for 2016 compared with that for 2015 *(%)*	2014
(IV) Transportation					
1. Turnover of self-owned railway	Billion tonne km	**244.6**	200.1	22.2	223.8
2. Seaborne coal	Million tonnes	**226.4**	203.8	11.1	235.8
Of which:					
At Huanghua Port	Million tonnes	**158.6**	111.6	42.1	131.6
At Shenhua Tianjin Coal Dock	Million tonnes	**39.5**	40.3	(2.0)	36.6
At Shenhua Zhuhai Coal Dock	Million tonnes	**3.2**	6.6	(51.5)	5.8
3. Shipping volume	Million tonnes	**79.2**	79.8	(0.8)	87.7
4. Shipment turnover	Billion tonne nautical miles	**63.0**	64.1	(1.7)	72.2

(2) Changes in 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 *(Restated)*	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	**26,286**	21.1	17,264	14.0	52.3
Materials, fuel and power	**16,405**	13.1	15,816	12.8	3.7
Personnel expenses	**12,661**	10.1	11,874	9.6	6.6
Depreciation and amortization	**21,744**	17.4	21,134	17.1	2.9
Repairs and maintenance	**9,509**	7.6	8,619	7.0	10.3
Transportation charges	**10,172**	8.2	12,193	9.9	(16.6)
Taxes and surcharges	**6,922**	5.6	5,833	4.7	18.7
Others	**21,144**	16.9	30,608	24.9	(30.9)
Total cost of sales	**124,843**	100.0	123,341	100.0	1.2

The cost of sales of the Group in 2016 represented a year-on-year increase of 1.2%, of which:

① The cost of coal purchased represented a year-on-year increase of 52.3%, which was mainly attributable to, firstly, the enhancement of effort on sales of purchased coal by the Group, the sales of purchased coal represented a year-on-year increase of 34.7%, secondly, being affected by the increase in coal price for the second half of year, the average purchase costs of purchased coal for the year represented a year-on-year increase;

② Repairs and maintenance expenses represented a year-on-year increase of 10.3%, which was mainly attributable to the increase in repairs and maintenance expenses of transportation business as a result of the increase of transportation turnover of self-owned railways and seaborne coal volume via ports;

③ Transportation charges represented the costs incurred through external railway, expressway, shipping transportation, the use of external port and so forth. Such charges represented a year-on-year decrease of 16.6% in 2016, which was mainly attributable to the decrease in transportation volume through national railways;

④ Taxes and surcharges represented a year-on-year increase of 18.7%, which was mainly attributable to the inclusion of tax on vehicles and vessels use, real estate tax, land-use tax and stamp duty originally included in general and administrative expenses to taxes and surcharges since 2016 based on relevant requirements; and the increase in resource tax and relevant surtaxes resulting from an increase in coal price;

⑤ Other costs represented a year-on-year decrease of 30.9%, which was mainly attributable to the decrease in the materials trading business volume.

(3) Major Business segments

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

Unit: RMB million

Major business segments in 2016 (before eliminations)

Business segment	Revenue	Cost of sales	Gross profit margin *(%)*	Increase/decrease in revenue as compared with last year *(%)*	Increase/decrease in cost of sales as compared with last year *(%)*	Increase/decrease in gross profit margin as compared with last year
Coal	131,357	109,404	16.7	8.2	1.8	Increased by 5.2 percentage points
Power	69,850	53,939	22.8	(4.4)	8.3	Decreased by 9.0 percentage points
Railway	33,530	17,350	48.3	23.1	18.9	Increased by 1.9 percentage points
Port	5,040	2,523	49.9	33.7	24.5	Increased by 3.7 percentage points
Shipping	2,112	1,707	19.2	5.5	(3.0)	Increased by 7.1 percentage points
Coal chemical	4,831	4,330	10.4	(13.0)	(8.3)	Decreased by 4.6 percentage points

The percentages of the profit from operations attributable to the coal, power, transportation and coal chemical segments of the Group before elimination on consolidation changed from 17%, 50%, 31% and 2% in 2015 to 36%, 25%, 38% and 1% in 2016 respectively, such significant changes were mainly due to the following reasons:

① The increases in both sales volume and price of coal due to the tendency towards demand and supply balance in the coal market facilitated by the the supply-side reform of the coal industry and the decreases in both the unit production cost of self-produced coal and volume of material trading business led to a significant increase in the profit from operations attributable to the coal segment;

② The decrease in on-grid tariff of coal-fired power and the increase in the procurement price of thermal coal resulted in a significant decrease in the profit from operations attributable to the power segment;

③ Benefiting from the growth of coal sales volume and the implementation of macroscopic logistics strategy, the growth of coal and non-coal commodities transported by self-owned railway and ports led to a significant increase in the profit from operations attributable to the transportation segment.

(4) Analysis of the production and sales volume

Major products	Production volume	Sales volume	Inventory	Year-on-year increase/decrease in production volume (%)	Year-on-year increase/decrease in sales volume (%)	Increase/decrease in inventory as compared with the beginning of the year (%)
Coal	289.8 million tonnes	394.9 million tonnes	29.4 million tonnes	3.2	6.6	30.1
Power	236.04 billion kWh	220.57 billion kWh	/	4.5	4.8	/

(5) Major customers

No.	Top five customers	2016 Revenue *RMB million*	2016 Percentage to revenue *%*
1	First	11,481	6.3
2	Second	8,771	4.7
3	Third	7,656	4.2
4	Fourth	7,286	4.0
5	Fifth	6,943	3.8
	Total	42,137	23.0

Among the above major customers, the sales revenue generated from connected parties amounted to RMB11,481 million, which accounted for 6.3% of the revenue for the year.

(6) Major suppliers

During the reporting period, the total procurement from the top five suppliers of the Company amounted to RMB14,340 million, accounting for 14.4% of the total procurement for the year. Among which, the procurement made from connected parties were RMB6,484 million, accounting for 6.5% of the total procurement for the year.

3. Other items of income statement

(1) General and administrative expenses: representing a year-on-year decrease of 13.3% in 2016, which was mainly attributable to the inclusion of tax on vehicles and vessels, real estate tax, land-use tax and stamp duty originally included in general and administrative expenses to taxes and surcharges under operating costs since 2016 based on relevant requirements.

(2) Other gains and losses: representing a year-on-year decrease of 47.4% in 2016, which was mainly attributable to the decrease in losses on asset impairment as compared with last year. Pursuant to the assessment result of asset impairment at the end of 2016, the Group made provision for impairment on electric machinery and equipment demolished due to energy saving and environmental protection reconstruction, the power generators and related equipment in closed Longyan Power Plant of Fujian Energy Company and parts of inventories.

(3) Other income: representing a year-on-year decrease of 16.9% in 2016, which was mainly attributable to the decrease in government grants for power and transportation segments.

(4) Other expenses: representing a year-on-year increase of 141.4% in 2016, which was mainly attributable to the increase of donation for public welfare.

(5) Interest income: representing a year-on-year increase of 18.9% in 2016, which was mainly attributable to the increase of time deposits.

(6) Finance costs: representing a year-on-year increase of 12.2% in 2016, which was mainly attributable to the decrease in capitalised interests for 2016 as a result of the commencement of operation of Bazhun Railway, Zhunchi Railway and other projects in 2015, which in turn increased the interest expenses included in finance expenses.

(7) Share of results of associates: representing a year-on-year decrease of 44.6% in 2016, which was mainly attributable to the decrease in revenue generated from associated power generation enterprises.

(8) Income tax: representing a year-on-year decrease of 2.9% in 2016, and the average rate of income tax in 2016 was 22.5% (2015: 27.7%), with a decrease of 5.2 percentage points, which was mainly attributable to the increase in percentage of profits in the coal segment, which is entitled to more preferential tax rates, and the decrease in percentage of profits in the power segments, which are entitled to less preferential tax rates, and the decrease in deductible losses and deductible temporary differences of unrecognized deferred tax assets as compared with last year.

4. Investment in research and development

Expensed research and development expenditure in the period *(RMB million)*	400
Capitalized research and development expenditure in the period *(RMB million)*	175
Total research and development expenditure *(RMB million)*	575
Ratio of capitalized research and development expenditure *(%)*	30.4
Percentage of total research and development expenditure to revenue *(%)*	0.3
Number of research and development personnel in the Company *(number of person)*	2,468
The ratio of research and development personnel to the total number of persons in the Company *(%)*	2.7

In 2016, the research and development expenditure of the Group, representing a year-on-year decrease of 25.3% (2015: RMB770 million), is mainly used for research in various aspects including research and production of key equipment on digital mines, mine transportation and deployment system, comprehensive use of coal ash after combustion and preservation and usage of water resources in mining area.

5. Cash flow

(1) Net cash generated from operating activities: a year-on-year increase of 47.8% in 2016, of which, net cash used in operating activities of Shenhua Finance Company amounted to RMB10,681 million (2015: net cash inflow of RMB9,065 million), representing a year-on-year change of 217.8%, which was mainly due to the decrease in deposits by Shenhua Finance Company. After eliminating the effects of Shenhua Finance Company, net cash generated from operating activities of the Group represented a year-on-year increase of 99.7%. This was mainly due to the significant decrease in the increase of bank acceptance bills receivable and account receivable compared with last year and the decrease in tax paid.

(2) Net cash used in investing activities: representing a year-on-year increase of 147.5% in 2016. This was mainly due to the increase in cash paid for the purchase of wealth management products.

(3) Net cash used in financing activities: representing a year-on-year decrease of 20.2% in 2016. This was mainly due to the decrease in cash paid for dividend for 2016, and the consideration paid for merger of subsidiaries under common control in 2015.

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

✔ Applicable ☐ Not applicable

Pursuant to the assessment result of asset impairment at the end of 2016, the Group made provision for impairment of RMB2,807 million in total on power machinery and equipment demolished due to energy saving and environmental protection reconstruction, the power generators and relevant equipment in closed Longyan Power Plant of Fujian Energy Company and parts of inventories.

(III) Analysis on Assets and Liabilities

1. Assets and Liabilities

Unit: RMB million

Items	**Amount at the end of the year**	**Percentage of total assets at the end of the year** *(%)*	Amount at the end of the previous year	Percentage of total assets at the end of the previous year *(%)*	Change of the amount *(%)*	Main reasons for changes
Construction in progress	**35,220**	**6.1**	33,610	6.0	4.8	Increase in materials for power business projects
Other non-current assets	**36,749**	**6.4**	34,562	6.2	6.3	Increase in loan balance issued by Shenhua Finance Company
Accounts and bills receivable	**20,573**	**3.6**	41,019	7.3	(49.8)	Notes being become due for repayment and decrease in receipt of bank acceptance bills; and decrease in receivables from coal sales of coal segment
Prepaid expenses and other current assets	**48,792**	**8.5**	19,351	3.5	152.1	Increase in purchase of wealth management products by the Company and Shenhua Finance Company
Restricted bank deposits	**6,141**	**1.1**	4,611	0.8	33.2	Increase in statutory deposit reserves balance of Shenhua Finance Company placed at the central bank
Time deposits with original maturity over three months	**3,428**	**0.6**	916	0.2	274.2	Maturity of time deposits
Short-term debenture	**0**	**0.0**	4,998	0.9	(100.0)	Maturity of super short-term
Accounts and bills payable	**35,156**	**6.1**	33,990	6.1	3.4	Increase in payables of bank acceptance bills from power segment
Accrued expenses and other payables	**41,361**	**7.2**	47,519	8.5	(13.0)	Decrease in balance of deposits placed with Shenhua Finance Company
Current portion of long-term liabilities	**19,989**	**3.5**	0	0.0	/	Increase of medium-term debentures due within one year
Long-term borrowings	**58,462**	**10.1**	54,179	9.7	7.9	Increase in balance of long-term borrowings from power segment

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
Medium-term debentures	**4,985**	**0.9**	24,955	4.5	(80.0)	Medium-term debentures to be due within one year were reclassified to non-current liabilities due within one year

2. *Restriction on the major assets*

As of the end of 2016, the balance of restricted assets of the Group amounted to RMB6,933 million, which mainly consists of statutory deposit reserves balance of Shenhua Finance Company placed at the central bank and fixed assets as collaterals for bank borrowings. None of the major assets of the Group were seized nor detained.

(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. In 2016, under the continued deepening the supply-side reform of the coal industry, the Group proactively coped with the changes in industrial policies and market conditions to adjust the production volume in time according to regulations, so as to strengthen the profitability of the coal segment by quality enhancement and structural adjustment. During the year, commercial coal production volume of the Group reached 289.8 million tonnes (2015: 280.9 million tonnes), representing a year-on-year increase of 3.2%. The total footage of advancing tunnels was 380 thousand meters (2015: 564 thousand meters), representing a year-on-year decrease of 32.6%. Specifically, Shendong Mines recorded footage of advancing tunnels of 366 thousand meters (2015: 547 thousand meters), and Baotou Mines recorded footage of advancing tunnels of 14 thousand meters (2015: 17 thousand meters). The calorific value of thermal coal has been increasing, and the average calorific value of commercial coal for the year reached 5,003 kcal/kg, representing a year-on-year increase of 36 kcal/kg. With the further optimisation of coal product structure, the proportion of low-sulphur eco-friendly coal and high value-added special coal output has further increased.

Shendong Mines coordinated its coal production and loading in a scientific way which optimised production and loading according to market demand, so as to maximize the production of marketable products. Zhunge'er Mines enhanced its efficiency by way of improvement of quality and efficiency, lump coal sales, accurate loading and collaborative mining. Guided by the market and efficiency, Shengli Mines, Shenbao Mines and Baotou Mines organized the coal production.

Guojiawan Coal Mine has commenced operation with an approved production capacity of 8.0 million tonnes/year, and the construction of its dedicated railway remained in progress stably. The expansion works for Qinglongsi Coal Mine with an approved production capacity of 3.0 million tonnes/year was progressing as planned and entered into the stage of collaborative trial operation.

Production and sales volumes of all coals in 2016 of the Group are as below:

Types of coal	**Production volume**	**Sales volume**	**Revenue**	**Cost of sales**	**Gross profit**
	Million tonnes	*Million tonnes*	*RMB million*	*RMB million*	*RMB million*
Thermal coal	289.8	394.7	125,189	99,663	25,526
Coking coal	/	0.2	141	141	0
Total	/	394.9	125,330	99,804	25,526

In 2016, 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 RMB25 million (2015: RMB96 million), which was mainly attributable to the relevant expenses of Watermark Coal Project in Australia and Sumsel Coal Power Project (Phase I) in Indonesia. The Company's relevant capital expenditure of mining development and exploration amounted to approximately RMB4,551 million (2015: RMB3,539 million), which was mainly attributable to the expenditure related to coal mining, consideration payment for mining rights and acquisition of fixed assets for Shendong Mines, Zhunge'er Mines and Shenbao Mines as well as the exploration expenditure of Guojiawan Coal Mine and Qinglongsi Coal Mine.

The Group has independently operated railway collection and distribution channels. These channels are centralized and distributed in the rim of self-owned core mines, and can transport coal in the core mines.

(2) Sales of coal

The Group implemented specialized division management. Production enterprises are responsible for production of coal, and Shenhua Trading Group is mainly responsible for all sales of coal. Customers have different industry background, such as power, metallurgy, chemical and construction materials. In 2016, the Group adopted various measures to cope with the market volatility, increased the number of channels for coal resources procurement, enhanced the marketing efforts in the region of "the movement towards the shipping route from the northern sea to the Yangtze River" and clean coal market, and proactively promoted coal trading. Thus, the sales volume of coal amounted to 394.9 million tonnes (2015: 370.5 million tonnes), representing a year-on-year increase of 6.6%; among which the domestic sales volume of coal amounted to 386.2 million tonnes, accounting for 12.1% of the domestic sales volume of coal for the same period which amounted to 3.18 billion tonnes[1].

To maximize the efficiency of the integrated operation, the Group increased the sales volume of seaborne coal by an optimised arrangement of coal with a higher loading volume at self-owned ports. The annual seaborne coal sales was 226.4 million tonnes (2015: 203.8 million tonnes), representing a year-on-year increase of 11.1%. The seaborne coal sales through self-owned Huanghua Port and Shenhua Tianjin Coal Dock, accounted for 87.5% of the total seaborne coal sales of the Group, representing a year-on-year increase of 13.0 percentage points.

1 Data source: State Administration of Coal Mine Safety

The Group increased the number of sales channels and the procurement volume of coal through Shenhua Coal Trading Network (https://www.e-shenhua.com) developed by the Group, and effectively cut the cost. In 2016, the coal sales volume and coal procurement volume of the Group through Shenhua Coal Trading Network reached 191.4 million tonnes and 10.2 million tonnes, respectively.

In view of the rebound of thermal coal prices in the second half of the year, the Group recorded an average coal sales price of RMB317 /tonne in 2016 (2015: RMB293/tonne) (excluding tax), representing a year-on-year increase of 8.2%.

① *By sales regions*

	2016			2015			Change	
	Sales volume *Million tonnes*	**Proportion of total sales** %	**Price** *RMB/tonne*	Sales volume *Million tonnes*	Proportion of total sales %	Price *RMB/tonne*	Sales volume %	Price %
I. Domestic sales	**386.2**	**97.8**	**317**	365.5	98.7	293	5.7	8.2
(I) Self-produced coal and purchased coal	**374.4**	**94.8**	**316**	354.1	95.6	292	5.7	8.2
1. Direct arrival	**151.3**	**38.3**	**229**	151.5	40.9	221	(0.1)	3.6
2. Seaborne	**223.1**	**56.5**	**376**	202.6	54.7	345	10.1	9.0
(II) Sales of domestic trading coal	**11.6**	**2.9**	**339**	11.2	3.0	318	3.6	6.6
(III) Sales of imported coal	**0.2**	**0.1**	**415**	0.2	0.1	413	0.0	0.5
II. Export Sales	**3.3**	**0.8**	**407**	1.2	0.3	443	175.0	(8.1)
III. Overseas coal sales	**5.4**	**1.4**	**276**	3.8	1.0	218	42.1	26.6
(I) EMM Indonesia	**1.8**	**0.5**	**97**	1.9	0.5	84	(5.3)	15.5
(II) Re-export trade	**3.6**	**0.9**	**367**	1.9	0.5	358	89.5	2.5
Total sales volume/weighted average price	**394.9**	**100.0**	**317**	370.5	100.0	293	6.6	8.2

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

In 2016, the sales volume of the Company to the top five domestic customers of coal was 35.3 million tonnes, which accounted for 9.1% of the domestic sales volume. In particular, the sales volume to the largest customer was 9.0 million tonnes, which accounted for 2.3% of the domestic sales volume. The top five domestic customers of coal were primarily coal, power and coal trading companies.

② *By internal and external customers*

	2016			2015			
	Sales volume	**Percentage**	**Price**	Sales volume	Percentage	Price	Change in price
	Million tonnes	**%**	***RMB/tonne***	*Million tonnes*	%	*RMB/tonne*	%
Sales to external customers	**305.5**	**77.4**	**321**	281.6	76.0	294	9.2
Sales to internal power segment	**85.4**	**21.6**	**308**	84.6	22.8	292	5.5
Sales to internal coal chemical segment	**4.0**	**1.0**	**237**	4.3	1.2	236	0.4
Total sales volume/average price	**394.9**	**100.0**	**317**	370.5	100.0	293	8.2

In 2016, the sales volume of internal power segment and coal chemical segment respectively accounted for 21.6% and 1.0% of the coal segment of the Group, representing a decrease of 1.2 percentage points and 0.2 percentage points as compared with last year, respectively. The Company adopted unified pricing policies in coal sales to the internal power segment, coal chemical segment and external customers.

(3) Production safety

In 2016, the Group continued to raise the awareness of production safety within the Group with the implementation of production safety accountability system as the focus. It also pushed forward the establishment of the safety risk prevention and control system and conducted specialized safety inspection and key supervision for coal mines. There was no "major" or more serious safety accident occurred during the year. In 2016, the fatality rate per million tonnes of the coal mines of the Group was zero, enabling the Company to maintain its internationally leading position.

Efforts in ensuring safe coal production are detailed in the 2016 CSR Report of the Group.

(4) Environmental protection

In 2016, the Group continued to innovate its coal mining technologies and reinforce the establishment of the environmental protection system in coal mines to raise the production capacity of clean coal. Additionally, it actively promoted the construction of ecological mines and eco-friendly mines as well as the green development of coal mines by protection and utilisation of water resources, reduction of dust and consumption, ecological construction and restoration, screening of environmental protection risks and establishment of ecological management funds in mining areas and other protection measures. There was no "major" or more serious environmental safety incident occurred during the year.

During the year, the Group invested a total of RMB117 million in conservation of soil and water and ecological construction and a total of RMB235 million in energy saving and environmental protection projects, paid RMB50 million for sewage charges for its coal segment, and used mining waste water of 72.53 million tonnes. At the end of 2016, balance of the "accrued reclamation obligations" amounted to RMB2,549 million, serving as strong financial guarantee for ecological construction.

Measures on environmental protection of coal are detailed in the 2016 CSR Report of the Group.

(5) Coal resources

As at 31 December 2016, under the PRC Standard, the Group had coal resources amounting to 24.01 billion tonnes, representing a decrease of 1.2% as compared with that of the end of 2015; and recoverable coal reserve amounting to 15.43 billion tonnes, representing a decrease of 2.0% as compared with that of the end of 2015. The Group's marketable coal reserve amounted to 8.85 billion tonnes under the JORC Standard, representing an increase of 8.7% as compared with that of the end of 2015, which was mainly due to the increase in the marketable coal reserve of Shendong Mines and Zhunge'er Mines and the decrease in the marketable coal reserve of Shengli Mines according to the comprehensive reassessment of the marketable coal reserve of the Company's coal mines under the JORC Standard conducted by competent professional institution under the engagement by the Company in 2016.

Unit:'00 million tonnes

Mines	**Coal resources (under the PRC Standard)**	**Recoverable coal reserve (under the PRC Standard)**	**Marketable coal reserve (under the JORC Standard)**
Shendong Mines	164.5	95.4	51.6
Zhunge'er Mines	40.1	32.2	21.7
Shengli Mines	20.6	14.1	2.5
Baorixile Mines	14.4	12.2	12.6
Baotou Mines	0.5	0.4	0.1
Total	**240.1**	**154.3**	**88.5**

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	Approximately 5,500	≤0.49	Approximately 11.8
2	Zhunge'er Mines	Long flame coal	Approximately 4,680	≤0.48	Approximately 26.3
3	Shengli Mines	Lignite	Approximately 3,095	≤0.81	Approximately 20.2
4	Baorixile Mines	Lignite	Approximately 3,650	≤0.22	Approximately 14.5
5	Baotou Mines	Non-caking coal	Approximately 4,410	≤0.72	Approximately 16.2

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

(6) Operating results

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

		2016	2015	Change (%)	Main reasons for changes
Revenue	RMB million	**131,357**	121,458	8.2	The supply-side reform of the coal industry mitigated the over-supply in coal market, resulting in the recovery of coal price and sales volume
Cost of sales	RMB million	**109,404**	107,493	1.8	The increase in the procurement of purchased coal for meeting market demand led to a significant increase in the cost of purchased coal; and the related transportation cost increased in line with the increase in sales volume of coal
Gross profit margin	%	**16.7**	11.5	Increased by 5.2 percentage points	
Profit from operations	RMB million	**17,017**	6,433	164.5	Other than the above factors, the volume of material trading business and the impairment loss of coal-related assets recorded a significant year-on-year decrease
Profit margin from operations	%	**13.0**	5.3	Increased by 7.7 percentage points	

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

	2016				2015			
	Revenue	**Costs**	**Gross profit**	**Gross profit margin**	Revenue	Costs	Gross profit	Gross profit margin
	RMB million	***RMB million***	***RMB million***	***%***	*RMB million*	*RMB million*	*RMB million*	*%*
Domestic	**122,486**	**97,487**	**24,999**	**20.4**	107,041	90,179	16,862	15.8
Export and overseas	**2,844**	**2,317**	**527**	**18.5**	1,372	1,229	143	10.4
Total	**125,330**	**99,804**	**25,526**	**20.4**	108,413	91,408	17,005	15.7

The coal sold by the Group is mainly produced in its self-owned mines. In order to fulfill the needs of customers and adequately make use of railway transportation, the Group also purchased the coal from third parties in the surrounding areas of the self-owned mines and railways and produced different kinds and level of coal products and sold them to external investors. As there are many kinds of coal products and different ratios of mixture of purchased coal, it may be difficult to review the revenue, costs and gross profit of coal in accordance with the sources of coal (self-produced coal and purchased coal).

③ *Unit production cost of self-produced coal*

Unit: RMB/tonne

	2016	2015	Change (%)	Main reasons for changes
Materials, fuel and power	**18.3**	20.6	(11.2)	Decrease in tunneling footage for underground mines year-on-year though optimizing the production units; Decrease in the price of fuel used for coal exploitation
Personnel expenses	**17.6**	17.7	(0.6)	
Repairs and maintenance	**8.7**	9.2	(5.4)	Decrease in expenditures for outsourcing repairs due to the enhancement of efficiency in self-owned maintenance; Extend the maintenance cycle of equipment through technology renovation
Depreciation and amortization	**21.9**	25.2	(13.1)	Decrease in amortization of long-term deferred expenses including compensation for land use and relocation as a result of a decrease in land requisition for production use
Other costs	**43.1**	50.5	(14.7)	Decrease in outsourcing mining engineering expenses and auxiliary production expenses due to the enhancement of efficiency in self-owned team; Decrease in taxes
Unit production cost of self-produced coal	**109.6**	123.2	(11.0)	

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 62%; (2) auxiliary production expenses, accounting for 13%; (3) land requisition and surface subsidence compensation, environmental protection expenses, tax, fees levied by local government, etc., accounting for 25%.

④ *Cost of coal purchased from third parties*

The coal purchased from third parties by the Company includes coal purchased from the surrounding areas of the self-owned mines and railways, domestic trading coal, imported and re-exported coal.

In 2016, sales volume of coal purchased by the Group from third parties was 109.4 million tonnes (2015: 81.2 million tonnes), representing a year-on-year increase of 34.7%, and its proportion of the Company's total sales volume of coal increased to 27.7% from 21.9% in 2015. The costs of coal purchased from third parties for the year was RMB26,286 million (2015: RMB17,264 million), representing a year-on-year increase of 52.3%. 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, and the rise of procurement price in coal.

2. *Power segment*

(1) *Production and operations*

In 2016, under the overall downturn of the domestic thermal power market, the Group enhanced its marketing efforts based on its advantage of clean power generation to strive for a higher amount of power generation. The gross power generation amounted to 236.04 billion kWh (2015: 225.79 billion kWh), representing a year-on-year increase of 4.5%; and total power output dispatch of 220.57 billion kWh (2015: 210.45 billion kWh), representing a year-on-year increase of 4.8%, accounting for 3.7% of 5,919.8 billion kWh[1] of the total power consumption of society at the same period.

The Group continued to promote the clean development of coal-fired power by proactively implementing the "ultra-low emission" renovation of coal-fired generators, and its proportion of the installed capacity of "ultra-low emission" coal-fired generators maintained at an industry-leading level. The Group has completed the "ultra-low emission" renovation for all coal-fired power plants in the Beijing-Tianjin-Hebei region. Following the completion of construction and commencement of operation, Guohua Shouguang Power Plant and Liuzhou Power Plant became the first "ultra-low emission" power plant in Shandong Province and Guangxi Province, respectively.

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1 Source: National Energy Administration

In view of the Group's proactive adaption to the reform of power market, the transacted power generation and, in particular, the direct power supply to users recorded a significant increase as compared with the previous year. For 2016, the sales volume of direct power supply of the Group amounted to approximately 42.3 billion kWh, representing a year-on-year increase of approximately 119%, and its proportion of the total power output dispatch increased by approximately 10 percentage points. Shenhua Fuping Integrated Energy Demonstration Project was one of the first batch of experimental units for reform of incremental power distribution business of China, the preliminary work of the constrction of power distribution networks remained in progress stably and Shenhua Guangdong Power Sales Company was incorporated.

Taking an important role in the internal market, the power segment collaborates with the coal and transportation segments for coal field management in power plants and handling and unloading of thermal coal. During the year, the power segment consumed coal from China Shenhua of 88.0 million tonnes, accounting for 89.0% of the total coal consumption.

(2) Power consumption and power tariffs

① *Classified by power type*

	Gross power generation *(billion kWh)*			**Total power output dispatch** *(billion kWh)*			**Power tariff** *(RMB/MWh)*		
Power type	**2016**	2015	Change *(%)*	**2016**	2015	Change *(%)*	**2016**	2015	Change *(%)*
Coal-fired power	**229.73**	221.75	3.6	**214.42**	206.51	3.8	**301**	331	(9.1)
Wind power	**0.03**	0.02	50.0	**0.03**	0.02	50.0	**596**	598	(0.3)
Hydro power	**0.67**	0.67	0.0	**0.65**	0.65	0.0	**223**	232	(3.9)
Gas-fired power	**5.61**	3.35	67.5	**5.47**	3.27	67.3	**537**	560	(4.1)
Total	**236.04**	225.79	4.5	**220.57**	210.45	4.8	**307**	334	(8.1)

② *Classified by location*

Location/ Type of power	Power generation (billion kWh) 2016	2015	Year-on-year (%)	Power output dispatch (billion kWh) 2016	2015	Year-on-year (%)	Power tariff (RMB/MWh) 2016	2015	Year-on-year (%)
Domestic in total/ weighted average	**234.40**	**223.81**	**4.7**	**219.14**	**208.69**	**5.0**	**306**	**333**	**(8.1)**
Hebei	**33.99**	32.30	5.2	**31.84**	30.12	5.7	**300**	335	(10.4)
coal-fired power	**33.99**	32.30	5.2	**31.84**	30.12	5.7	**300**	335	(10.4)
Jiangsu	**23.87**	26.23	(9.0)	**22.74**	24.94	(8.8)	**313**	329	(4.9)
coal-fired power	**23.87**	26.23	(9.0)	**22.74**	24.94	(8.8)	**313**	329	(4.9)
Zhejiang	**25.84**	25.43	1.6	**24.42**	24.07	1.5	**360**	409	(12.0)
coal-fired power	**24.24**	23.63	2.6	**22.86**	22.31	2.5	**343**	387	(11.4)
gas-fired power	**1.60**	1.80	(11.1)	**1.56**	1.76	(11.4)	**608**	698	(12.9)
Inner Mongolia	**20.95**	23.51	(10.9)	**18.88**	21.09	(10.5)	**209**	239	(12.6)
coal-fired power	**20.95**	23.51	(10.9)	**18.88**	21.09	(10.5)	**209**	239	(12.6)
Guangdong	**20.85**	22.74	(8.3)	**19.39**	21.17	(8.4)	**376**	409	(8.1)
coal-fired power	**20.82**	22.72	(8.4)	**19.36**	21.15	(8.5)	**375**	409	(8.3)
wind power	**0.03**	0.02	50.0	**0.03**	0.02	50.0	**596**	598	(0.3)
Shaanxi	**24.25**	22.08	9.8	**22.11**	20.17	9.6	**252**	292	(13.7)
coal-fired power	**24.25**	22.08	9.8	**22.11**	20.17	9.6	**252**	292	(13.7)
Anhui	**21.48**	17.49	22.8	**20.45**	16.59	23.3	**299**	342	(12.6)
coal-fired power	**21.48**	17.49	22.8	**20.45**	16.59	23.3	**299**	342	(12.6)
Liaoning	**16.41**	14.90	10.1	**15.37**	13.96	10.1	**300**	321	(6.5)
coal-fired power	**16.41**	14.90	10.1	**15.37**	13.96	10.1	**300**	321	(6.5)
Fujian	**10.51**	9.49	10.7	**9.98**	8.99	11.0	**280**	329	(14.9)
coal-fired power	**10.51**	9.49	10.7	**9.98**	8.99	11.0	**280**	329	(14.9)
Xinjiang	**4.16**	5.72	(27.3)	**3.82**	5.31	(28.1)	**197**	208	(5.3)
coal-fired power	**4.16**	5.72	(27.3)	**3.82**	5.31	(28.1)	**197**	208	(5.3)
Tianjin	**5.29**	5.41	(2.2)	**4.96**	5.06	(2.0)	**331**	350	(5.4)
coal-fired power	**5.29**	5.41	(2.2)	**4.96**	5.06	(2.0)	**331**	350	(5.4)
Henan	**4.44**	4.87	(8.8)	**4.18**	4.59	(8.9)	**307**	347	(11.5)
coal-fired power	**4.44**	4.87	(8.8)	**4.18**	4.59	(8.9)	**307**	347	(11.5)

Location/ Type of power	Power generation (billion kWh) 2016	2015	Year-on-year (%)	Power output dispatch (billion kWh) 2016	2015	Year-on-year (%)	Power tariff (RMB/MWh) 2016	2015	Year-on-year (%)
Sichuan	**3.06**	3.75	(18.4)	**2.82**	3.44	(18.0)	**340**	364	(6.6)
coal-fired power	**2.39**	3.08	(22.4)	**2.17**	2.79	(22.2)	**375**	395	(5.1)
hydropower	**0.67**	0.67	–	**0.65**	0.65	–	**223**	232	(3.9)
Ningxia	**3.42**	3.48	(1.7)	**3.06**	3.14	(2.5)	**205**	226	(9.3)
coal-fired power	**3.42**	3.48	(1.7)	**3.06**	3.14	(2.5)	**205**	226	(9.3)
Chongqing	**5.71**	3.35	70.4	**5.45**	3.20	70.3	**343**	333	3.0
coal-fired power	**5.71**	3.35	70.4	**5.45**	3.20	70.3	**343**	333	3.0
Beijing	**4.01**	2.11	90.0	**3.91**	1.99	96.5	**509**	404	26.0
coal-fired power	**–**	0.56	(100.0)	**–**	0.48	(100.0)	**–**	413	(100.0)
gas-fired power	**4.01**	1.55	158.7	**3.91**	1.51	158.9	**509**	401	26.9
Shanxi	**3.39**	0.95	256.8	**3.16**	0.86	267.4	**239**	292	(18.2)
coal-fired power	**3.39**	0.95	256.8	**3.16**	0.86	267.4	**239**	292	(18.2)
Shandong	**2.56**	–	/	**2.41**	–	/	**294**	–	/
coal-fired power	**2.56**	–	/	**2.41**	–	/	**294**	–	/
Guangxi	**0.21**	–	/	**0.19**	–	/	**328**	–	/
coal-fired power	**0.21**	–	/	**0.19**	–	/	**328**	–	/
Overseas in total/weighted average	**1.64**	**1.98**	**(17.2)**	**1.43**	**1.76**	**(18.8)**	**476**	**431**	**10.4**
Indonesia	**1.64**	1.98	(17.2)	**1.43**	1.76	(18.8)	**476**	431	10.4
coal-fired power	**1.64**	1.98	(17.2)	**1.43**	1.76	(18.8)	**476**	431	10.4
Total/weighted average	**236.04**	**225.79**	**4.5**	**220.57**	**210.45**	**4.8**	**307**	**334**	**(8.1)**

(3) Installed capacity

At the end of the reporting period, the total installed capacity of power generation of the Group reached 56,288MW which represented an increase of 4.0% as compared with the end of last year, accounting for 3.4% of 1.65 billion kW[1] of the total installed capacity of power generation of China; among which, the total installed capacity of the coal-fired power generators is 54,417MW, which was 96.7% of the total installed capacity of the Group.

Unit: MW

Power type	Gross installed capacity as at 31 December 2015	Installed capacity increased/ (decreased) during the reporting period	**Gross installed capacity as at 31 December 2016**
Coal-fired power	52,257	2,160	**54,417**
Wind power	16	–	**16**
Hydro power	125	–	**125**
Gas-fired power	1,730	–	**1,730**
Total	54,128	2,160	**56,288**

Projects put into operation during the reporting period	**Location**	**Newly added installed capacity** *(MW)*
Shouguang Power	Shouguang City, Shandong Province	2×1,000
Liuzhou Power	Liuzhou City, Guangxi Zhuang Autonomous Region	2×350
Total	/	2,700

1 Data source: China Electricity Council

According to the Shut-down Programme of Small-scale Coal-fired Power Generators in Fujian Province, the 4×135MW coal-fired generators in Longyan Power Plant under Fujian Energy Company were shut down at the end of 2016, but the power generation quota planned for the future three years was retained for disposal and replacement.

(4) Utilisation Rate of power generation equipment

In 2016, the growth of the total power consumption of China has rallied. However, affected by the significant growth of non-fossil fuel power generation as well as the increase in the installed capacity of thermal power generators, the average utilisation hours of thermal power equipment in the PRC recorded a continuous decrease year-on-year. The average utilisation hours of coal-fired generators of the Group reached 4,428 hours for the year, representing a year-on-year decrease of 203 hours and 263 hours above the national average utilisation hours of 4,165 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 0.25 percentage point as compared with the same period last year. As at the end of the reporting period, the installed capacity of circulating fluidized bed generating units of the Group reached 6,484MW, which was 11.9% of the installed capacity of the coal-fired generating units of the Group.

	Average utilisation hours *(Hour)*			**Power consumption ratio of power plant** *(%)*		
Power type	**2016**	2015	Change *(%)*	**2016**	2015	Change
Coal-fired power	**4,428**	4,631	(4.4)	**5.95**	6.14	Decreased by 0.19 percentage point
Wind power	**1,952**	1,478	32.1	**0.90**	1.08	Decreased by 0.18 percentage point
Hydropower	**5,331**	5,364	(0.6)	**0.23**	0.25	Decreased by 0.02 percentage point
Gas-fired power	**3,243**	2,889	12.3	**2.03**	2.15	Decreased by 0.12 percentage point
Weighted average	**4,391**	4,591	(4.4)	**5.84**	6.09	Decreased by 0.25 percentage point

[1] Data source: China Electricity Council

(5) Environmental protection

The power segment proactively implemented the renovation of “green power generation” in energy conservation, consumption reduction and emission reduction, and continued to expand its efforts in environmental protection. The total investment of energy saving and environmental protection amounted to RMB2,138 million, among which, investment in environmental protection amounted to RMB1,105 million, and the sewage charges paid amounted to RMB26 million. As at the end of the reporting period, the desulfurization renovation for all of its national coal-fired power generators of the Group was completed. The proportion of coal-fired power generators with denitrification equipment in operation which had passed completion verification reached 100%, representing a leading position in the industry. The power segment continued to implement the “ultra-low-emission” renovation of coal-fired generators. As at the end of the reporting period, 66 “ultra-low-emission” coal-fired generators with total capacities of 36,770MW were newly constructed and renovated, which was 67.6% of the total installed capacity of coal-fired power generator of the Group. The standard coal consumption for average power sold of coal-fired power generators of the Group for the year was 315 gram/kWh, representing a decrease of 3 gram/kWh as compared with the same period last year.

(6) Capitalized Expenses

In 2016, the completed capitalized expenses of the power segment of the Group were RMB17.83 billion, primarily used in projects including the Shenhua Guohua Jiangxi Jiujiang New Coal Reserve (Transit) and Power Generation Integration Project (2×1,000MW), Shenhua Fujian Luoyuan Bay Coal Storage Integrated Power Plant Project (2×1,000MW), Shenhua Bashu Jiangyou New Coal-fired Power Generator Construction Project (2×1,000MW) and Phase II of Guohua Ningdong Power Expansion Project (2×660MW), and technical reformation expenditure on environmental protection at plants.

(7) Analysis of operation results

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

		2016	2015	Change (%)	Main reasons for changes
Revenue	RMB million	**69,850**	73,053	(4.4)	Decrease in power output sales prices due to the reduction in on-grid power tariff of coal-fired power generation
Cost of sales	RMB million	**53,939**	49,788	8.3	Increase in purchase costs of fuel of power plants resulting from the growth in coal price; Power output dispatch increased year-on-year
Gross profit margin	%	**22.8**	31.8	Decreased by 9.0 percentage points	
Profit from operations	RMB million	**11,689**	18,810	(37.9)	
Profit margin from operations	%	**16.7**	25.7	Decreased by 9.0 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	**2016**	2015	Change	**2016**	**Percentage to total costs of 2016**	2015	Percentage to total costs of 2015	Change in 2016 over 2015
			(%)		*(%)*		*(%)*	*(%)*
Coal-fired power	**66,047**	68,349	(3.4)	**49,507**	**94.4**	46,123	95.5	7.3
Wind power	**18**	14	28.6	**9**	**0.0**	10	0.0	(10.0)
Hydro power	**145**	152	(4.6)	**66**	**0.1**	74	0.2	(10.8)
Gas-fired power	**2,936**	1,830	60.4	**2,890**	**5.5**	2,062	4.3	40.2
Total	**69,146**	70,345	(1.7)	**52,472**	**100.0**	48,269	100.0	8.7

The Group's cost of sale of power mainly comprised such costs as raw materials, fuel and power, personnel expenses, repairs and maintenance, depreciation and amortization and other cost. The unit cost of power output dispatch of the Group in 2016 was RMB237.9/mWh (2015: RMB229.4/mWh), representing a year-on-year increase of 3.7%. The increase was mainly due to the increase in purchase costs of coal of coal-fired power plants, and the impact of additional provision for the total investment amount in the structural adjustment of industrial enterprises.

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

	2016		2015		Change
	Costs	**Percentage**	Costs	Percentage	in costs
	RMB million	**%**	*RMB million*	%	%
Raw material, fuel and power	**31,996**	**64.7**	29,958	65.0	6.8
Personnel expenses	**3,667**	**7.4**	3,477	7.5	5.5
Repairs and maintenance	**2,645**	**5.3**	2,503	5.4	5.7
Depreciation and amortization	**8,959**	**18.1**	8,329	18.1	7.6
Others	**2,240**	**4.5**	1,856	4.0	20.7
Total cost of power output dispatch of coal-fired power plant	**49,507**	**100.0**	46,123	100.0	7.3

3. *Railway segment*

(1) *Overview of production and operations*

As Bazhun Railway and Zhunchi Railway commenced operation, the overall railway transportation capacity of the Company was significantly enhanced, which substantially alleviated the tight market in transportation. In 2016, the railway segment brought its underlying services for the integrated operations into full play, which effectively secured the transportation for its principal coal business. With the implementation of the macroscopic logistic strategy and efforts on opening the transportation business to the public, it has embarked on the operations of coal transportation for external customers and endeavored to foster the transportation for commodities other than coal. The number of pairs of 20,000-tonne combination trains and "3+0" unit 10,000-tonne trains was further increased, and the utilisation rates of Baoshen South Line, Shenshuo Railway and other major routes for transportation exceeded 90%. The transportation volume of Bazhun Railway and Zhunchi Railway amounted to approximately 10.2 million tonnes and 40.4 million tonnes, respectively. The transportation volume of self-owned railways of the Company for the year hit a record high. The transportation turnover of self-owned railways was 244.6 billion tonne km, representing a year-on-year increase of 22.2%; among which, the turnover of providing railway transaction services to third parties amounted to 21.8 billion tonne km (2015: 17.6 billion tonne km), representing a growth of 23.9% year-on-year, the revenue generated from providing transportation services for third parties amounted to RMB4,174 million (2015: RMB3,420 million), representing a year-on-year increase of 22.0%.

(2) *Progress of projects*

During the reporting period, the construction work of Huangda Railway continued to advance, and was expected to complete in the second half of 2018. Due to the preliminary work progress of the project, the construction work of Amo Railway was suspended, and the construction period will be subject to adjustment according to the actual conditions.

(3) Operating results

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

		2016	2015	Change (%)	Main reasons for changes
Revenue	RMB million	**33,530**	27,232	23.1	With the recovery of coal market, there was an increase in coal transportation turnover of railways year-on-year; expansion of investment in coal transportation and non-coal transportation businesses by the Company
Cost of sales	RMB million	**17,350**	14,595	18.9	Increase in depreciation and amortization, personnel expenses and repairs as a result of the commencement of the operations of new railway lines; Increase in fuel and power costs in relation to railway operation arising from the increase in coal transportation volume
Gross profit margin	%	**48.3**	46.4	Increased by 1.9 percentage points	
Profit from operations	RMB million	**15,000**	10,070	49.0	
Profit margin from operations	%	**44.7**	37.0	Increased by 7.7 percentage points	

In 2016, the revenue generated from the internal transportation services provided by the railway segment for the Group amounted to RMB29,356 million (2015: RMB23,812 million), representing a year-on-year increase of 23.3%, accounting for 87.6% of the revenue of the railway segment (2015: 87.4%).

In 2016, the unit transportation cost in the railway segment was RMB0.067/tonne km (2015: RMB0.071/tonne km), representing a year-on-year decrease of 5.6%, mainly due to the significant increase in transportation turnover volume of self-owned railways.

4. *Port Segment*

(1) *Overview of production and operations*

The port segment implemented the strategy of macroscopic logistics and strengthened the connection, between upstream and downstream in 2016 by improving the efficiency of loading vessels to ensure steady and integrated operation. The Group further increased the seaborne coal sales through the self-owned ports according to the principle of maximization of overall efficiency. The proportion of the seaborne coal sales through the self-owned ports increased to 88.9% to the total seaborne coal sales from 77.8% last year. The seaborne coal sales through Huanghua Port for the year was 158.6 million tonnes, representing a year-on-year increase of 42.1%. The seaborne coal sales through Shenhua Tianjin Coal Dock was 39.5 million tonnes, representing a year-on-year decrease of 2.0%. Non-coal business recorded a relatively rapid growth with bulk cargo and oil throughput exceeding 10 million tonnes.

(2) *Analysis of operating results*

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

		2016	2015	Change *(%)*	Main reasons for changes
Revenue	RMB million	**5,040**	3,769	33.7	Increase in sales of seaborne coal due to the recovery of domestic coal market; Increase in the throughput of non-coal cargo due to the continued promotion of implementing the strategy of macroscopic logistics by the Group
Cost of sales	RMB million	**2,523**	2,026	24.5	Increase in relevant transportation costs as a result of the increase in seaborne coal sales
Gross profit margin	%	**49.9**	46.2	Increased by 3.7 percentage points	
Profit from operations	RMB million	**2,302**	1,350	70.5	
Profit margin from operations	%	**45.7**	35.8	Increased by 9.9 percentage points	

In 2016, the revenue generated from the internal transportation services provided by the port segment to the Group amounted to RMB4,465 million (2015: RMB3,452 million), representing a year-on-year increase of 29.3% and accounting for 88.6% (2015: 91.6%) of the revenue of the port segment. Costs of internal transportation services provided for the Group amounted to RMB2,160 million.

5. *Shipping Segment*

(1) Overview of production and operations

The shipping segment strengthened the self-owned vessel management and vessel allocation and coordinated with coal sales activities to contribute to the integrated operation. In 2016, shipping volume amounted to 79.2 million tonnes, and shipment turnover amounted to 63.0 billion tonne nautical miles.

(2) Operating results

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

		2016	2015	Change *(%)*	Main reasons for changes
Revenue	RMB million	**2,112**	2,002	5.5	Increase in shipping costs in coastal markets affected by factors including the tight supply of coal in coastal areas and the weather; Increase in coal transportation volume over internal power plants
Cost of sales	RMB million	**1,707**	1,760	(3.0)	Decrease in fuel price, and improved control on costs
Gross profit margin	%	**19.2**	12.1	Increased by 7.1 percentage points	
Profit from operations	RMB million	**266**	133	100.0	
Profit margin from operations	%	**12.6**	6.6	Increased by 6.0 percentage points	

In 2016, the unit transportation cost of the shipping segment was RMB0.027/tonne nautical mile (2015: RMB0.027/tonne nautical mile), representing a flat year-on-year growth.

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.

The sales of polyethylene and polypropylene products of the Group in 2016 is as follows:

	2016		2015		Change	
	Sales volume	**Price**	Sales volume	Price	Sales volume	Price
	Thousand tonnes	***RMB/ tonne***	*Thousand tonnes*	*RMB/ tonne*	*%*	*%*
Polyethylene	**292.6**	**7,222**	319.2	7,432	(8.3)	(2.8)
Polypropylene	**282.1**	**5,958**	312.9	6,508	(9.8)	(8.5)

(2) Analysis of operating results

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

		2016	2015	Change *(%)*	Main reasons for changes
Revenue	RMB million	**4,831**	5,550	(13.0)	Decrease in production and sales volume of olefins products resulting from the suspended production for repairs for about one month in 2016; Decrease in sales price in olefins products as affected by the fluctuation of fossil oil price at the bottom of the market
Cost of sales	RMB million	**4,330**	4,720	(8.3)	Decrease in production and sales volume in olefins products
Gross profit margin	%	**10.4**	15.0	Decreased by 4.6 percentage points	
Profit from operations	RMB million	**254**	649	(60.9)	
Profit margin from operations	%	**5.3**	11.7	Decreased by 6.4 percentage points	

(3) Unit production cost of main products

	2016		2015		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	**294.6**	**5,839**	314.7	5,348	(6.4)	9.2
Polypropylene	**284.0**	**5,373**	308.7	5,074	(8.0)	5.9

All the coals consumed by the coal chemical segment were the Group's coals. The coals consumed in 2016 were 4.0 million tonnes, representing a decrease of 4.8% as compared to 4.2 million tonnes of last year. The year-on-year increase in unit production cost of olefin products was mainly due to the suspension of operation for all equipment of the coal-to-olefins project in early April 2016 due to the system overhaul lasted for about one month, which in turn reduced the production volume of olefin products.

In 2016, Baotou Coal Chemical Company contributed approximately RMB27 million on environmental protection, mainly for desulfurization and water-saving renovation. During the reporting period, the coal-to-olefins project is in compliance with the emission standard with no occurrence of major environmental pollution incidents.

(V) Regional operation analysis

Unit: RMB million

	2016	2015
Revenue from external transactions in domestic markets	**179,859**	175,129
Revenue from external transactions in overseas markets	**3,268**	1,940
Total	**183,127**	177,069

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

The Group is mainly engaged in the production and sales of coal and power, railway, port and shipping transportation as well as coal-to-olefins businesses in PRC. In 2016, the revenue from external transactions in domestic markets was RMB179,859 million, accounting for 98.2% of the Group's revenue. Affected by factors such as the increase in sale of coal and domestic coal price as well as the growth of transportation business, revenue from external transactions in domestic markets increased by 2.7% year-on-year. Affected by the significant increase in the volume of exported coal, revenue from external transactions in overseas markets increased by 68.5% year-on-year.

In 2016, the Group proactively respond to the promotion of "the Belt and Road" initiative of the state by putting more efforts in international exploration. The operation of Sumsel Coal Power Project (Phase I) (2 x 150MW) in Indonesia was running steadily. Sumsel-1 Coal Power Project (2 x 300MW) in Indonesia obtained on-site permission approval in Indonesia to commence construction preparation works. The financing activities of Jawa-7 Coal Power Project of Guohua (2 x 1,000MW) in Indonesia were completed and obtained environmental permission, construction permission and other approvals in Indonesia. The progress of the project was in line with the overall schedule. 17 out of 29 gas wells were under production process in the shale gas project in the United States and have produced gas volume of 330 million m3 attributable to the proportionate interest of Shenhua during the reporting period. The Watermark Coal Project in Australia continued to push forward the renewal of exploration rights and other works. Other external projects are commencing under the principle of stability and prudence.

(VI) Analysis on Investments

The external equity investments of the Company in 2016 amounted to RMB5,473 million (2015: RMB10,448 million), representing a year-on-year decrease of 47.6% from RMB10,448 million of last year. Equity investments mainly included capital increase in Baotou Energy Company, Shendong Power Company, Overseas Company and Shouguang Power, as well as the new establishment of Shenhua Guohua (Beijing) Distributed Energy Technology Company Limited, Jawa Company, Guohua Ningdong and Shenhua Guangdong Power Sales Company.

(1) Material investment in equity interest

☐ Applicable ✔ Not applicable

(2) Material investment in non-equity interest

☐ Applicable ✔ Not applicable

(3) Financial assets at fair value

Financial assets at fair value held by the Group at the beginning of the period were swap instruments (cross currency interest rate swaps), which were mainly used to hedge the risk of currency exchange and interest rate incurred by foreign currency borrowings. The above contracts were all expired in 2016.

At the end of the reporting period, financial assets at fair value of the Group were trust management products and held by Shenhua Finance Company and a handful of thermal coal futures. The initial investment cost of the trust management products issued by banks and held by Shenhua Finance Company amounted to RMB50 million; and the deposit for thermal coal futures amounted to RMB2 million, which was used to hedge the risk of changes in coal price.

(VII) Disposal of material assets and equity interest

☐ Applicable ✔ Not applicable

(VIII) Analysis on major holding and associated companies

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 2016			2016	2015	Change (%)	Main reasons for changes
1	Shendong Coal Group Co., Ltd.	**4,989**	**35,627**	**14,565**	**7,433**	3,601	106.4	Increase in coal prices and sales volume
2	Shuohuang Railway Development Co., Ltd.	**5,880**	**37,057**	**29,308**	**6,487**	5,059	28.2	
3	Jinjie Energy	**2,278**	**9,193**	**5,564**	**1,469**	2,374	(38.1)	Impact of the decrease in the power output dispatch and power tariff
4	Shenhua Trading Group	**1,889**	**24,844**	**5,888**	**1,465**	(378)	(487.6)	Sales model was changed from the buyout model to agency model
5	Zhunge'er Energy Company	**7,102**	**31,584**	**24,678**	**1,278**	1,305	(2.1)	
6	Huanghua Harbour Administration Company	**6,790**	**15,787**	**9,385**	**1,213**	506	139.7	Increase in the loading volume of vessels at the port
7	Taishan Power	**4,670**	**12,467**	**7,320**	**1,059**	1,701	(37.7)	Decrease in the power output dispatch and power tariff
8	Zheneng Power	**3,255**	**11,616**	**5,529**	**1,034**	1,618	(36.1)	Decrease in the power tariff
9	Shenwan Energy Company	**4,696**	**13,437**	**8,115**	**886**	1,212	(26.9)	
10	Dingzhou Power	**1,561**	**6,237**	**2,987**	**869**	991	(12.3)	

Note:

1. The financial information of the major subsidiaries disclosed in the above table (unassessed 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 Corporation recorded a revenue of RMB39,256 million and a profit from operations of RMB9,004 million in 2016.

3. Shuohuang Railway Company recorded a revenue of RMB17,250 million and a profit from operations of RMB8,557 million in 2016.

(IX) Subsequent Events

On 4 January 2017, Dr. Han Jianguo has resigned as the president of the Company, and the Board of the Company accepted his resignation. Upon his resignation from the position as the president of the Company, Dr. Han Jianguo will continue to serve as an executive director of the third session of the Board, and as a member of the Strategy Committee and the Safety, Health and Environment Committee of the Board of the Company.

As considered and approved on the 22nd meeting of the third session of the Board of the Company held on 4 January 2017, it was approved that Dr. Ling Wen, the vice chairman of the Company, has been appointed as the president of the Company for a term of three years commencing from the date of approval by the Board, and may be re-appointed upon the expiry of the term.

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

(I) Competition and Development Trend in the Industry

1. Macro economy

In 2016, facing the complex domestic and overseas economic environment, the Chinese government continued to strengthen supply-side reform, and further promoted the five missions of "eliminating excessive capacities, destocking, deleveraging, lowering costs and shoring up growth in weak areas". The national economy has been steady amidst slowdown trend and improved at a steady pace. The GDP was recorded a year-on-year increase of 6.7%, representing a decrease of 0.2 percentage point compared with the same period of last year. The Consumer Price Index (CPI) was recorded a year-on-year increase of 2.0%, representing an increase of 0.6 percentage

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

point compared with the same period of last year. The PPI was recorded a year-on-year decrease of 1.4%, representing a decrease of 3.8 percentage points compared with the same period of last year.

In 2017, Chinese economy is still confronted with various uncertainties. The government will adhere to the general principle of making progress while ensuring stability, and focus on the quality and effectiveness enhancement. With the key target of promoting the supply-side reform, it will properly expand the overall demand, and take various measures including maintaining a stable growth of the economy, promoting reforms, making structural adjustments, benefitting people's livelihood and preventing risks to facilitate stable and healthy development of the economy. It is expected that in 2017, the GDP growth will be around 6.5%, the CPI increase will maintain at around 3%, and the PPI will increase compared with the same period of last year. The all-year coal demand is expected to remain stable, and electricity demand is expected to remain at a growing momentum.

2. Market environment of the coal industry

(1) Thermal coal market in the PRC

Review of 2016

In 2016, the condition of excessive production capacity of coal subsisted without substantial changes. Affected by supply-side reform policy of the industry and seasonal factors, however, the supply and demand fluctuated greatly in the market. Coal mines in the PRC have implemented a system of 276 working days each year since 1 May. Therefore, the coal supply volume was restrained. The coal market has turned to a direction in favourable to the supplier, and thus, the coal price has rallied. When entering the third quarter, both the production of thermal power and demand for thermal coal increased. The supply and demand of coal turned within a short period from basically balanced to a tight supply in certain districts with rapidly increasing coal price. In order to suppress the excessive growth of coal price, the Government orderly utilised safe and advanced production capacity of high efficiency since 1 October 2016. Since November, with the gradual utilisation of advanced production capacity, a tight supply of coal resources in certain districts has been alleviated to some extent and the coal price has decreased slightly. As of the end of 2016, the price index of Bohai Bay thermal coal (5,500 kcal) was RMB593/tonne, increasing by RMB222/tonne compared with the beginning of the year (RMB371/tonne). During the year, the average price of Bohai Bay thermal coal price index was RMB460/tonne, representing a year-on-year increase of 7.5%.

	2016	2015	Year-on-year change *(%)*
Raw coal output *(million tonnes)*	**3,410**	3,747	(9.0)
Coal import *(million tonnes)*	**255.6**	204.1	25.2
Coal transportation by railway *(million tonnes)*	**1,900**	1,994	(4.7)

In 2016, raw coal production of in the PRC was 3,410 million tonnes, representing a year-on-year decrease of 9.0%, of which the decline was further larger compared with last year, among which, Inner Mongolia accounted for 840 million tonnes, representing a year-on-year decrease of 8.1%; Shanxi accounted for 820 million tonnes, representing a year-on-year decrease of 14.4%; Shaanxi accounted for 510 million tonnes, representing a year-on-year decrease of 2.8%.

Affected by a tight supply of domestic coals at certain stages, the import volume of coal was significantly rebounded. The accumulated import volume of coal for the year amounted to 256 million tonnes, representing a year-on-year increase of 25.2%.

Consumption volume of coal in the PRC in 2016 decreased by 4.7% year-on-year following the decrease for two consecutive years. In the main coal consumption downstream industry, the coal consumption of power and chemical industries increased year-on-year while the coal consumption of iron and steel and building material industries still declined compared with the same period of last year.

The coal transportation volume through railways in China was 1,900 million tonnes during the year, representing a year-on-year decrease of 4.7%. Coal outbound shipment through major ports in China was 640 million tonnes, which basically remained at the same level as last year.

The coal inventory level decreased. As of the end of 2016, the coal inventories at major ports in northern areas, major coal enterprises and major power plants were 175.8 million tonnes in aggregate, representing a decrease of 37.0 million tonnes or 26.6% compared with the beginning of the year.

Prospects for 2017

In 2017, it is expected that the gross domestic product (GDP) growth of China will maintain at around 6.5%, which is beneficial to the stability of the domestic coal demand. The Chinese government will further push forward the supply-side reform of the coal industry. The dynamic balance between demand and supply of coal will be safeguarded by the elimination of backward production capacity, adjustment to the production volume and other measures in response to changes in demand and prices. It is expected that the annual coal supply will undergo dynamic fluctuation under the influence of the policies.

Under the influence of certain factors including the seasonal relationship between supply and demand of coal in the PRC and transportation cost, it is expected that the coal import volume will remain at a proper scale throughout the year.

The demand for thermal coal is expected to experience seasonal fluctuation. Under the dual adjustments of demand and the government, the market will be gradually rationalised and the demand and supply has been balanced with a slight overcapacity. The price will be subject to volatility based on the contract coal price.

(2) Thermal coal market in the Asia Pacific region

Review of 2016

In 2016, as the economic recovery failed to meet the expectation and the structural adjustment in energy sector continued to be advanced, coal demand in countries with traditionally high coal consumption dropped as a whole. Affected by influence of certain factors including the decrease in production volume of major coal producing countries, the supply in global coal market shrunk further while the international coal price rose under fluctuation. The spot price of Newcastle NEWC thermal coal increased from US$49.11/tonne at the beginning of the year to US$94.44/tonne at the end of the year.

There is a decrease in total export volume of major coal exporters in 2016. Australia exported 380 million tonnes of coal, representing a year-on-year decrease of 2.3%. Indonesia exported 310 million tonnes of coal, representing a year-on-year decrease of 16.3%. The United States exported 50 million tonnes of coal, representing a year-on-year decrease of 23%. Russia exported 170 million tonnes of coal, representing a year-on-year increase of 5.8%.

Affected by the increase in coal production volume in India, the import of thermal coal decreased significantly with a cumulative import volume of 200 million tonnes of coal during the year, representing a year-on-year decrease of 2.6%. The import scales of Japan and Korea were basically stable. Japan imported 190 million tonnes of coal, representing a year-on-year decrease of 0.5% whereas Korea imported 140 million tonnes of coal, representing a year-on-year increase of 1.2%.

Prospects for 2017

In 2017, there will be a sufficient supply of goal. The implementation of China – Australia Free Trade Agreement is beneficial to the coal export of Australia. Despite the impact of exchange rate and the decrease in domestic coal demand, the coal export of Russia will increase steadily. By virtue of the increase of domestic demand of thermal coal in Indonesia, the coal export is expected to decrease. Given the decrease in production volume in the United States and other factors, the coal export will remain relatively sluggish.

China and India will remain as the major consumers of coal. Demand for thermal coal in India will remain at a relatively high level, and yet, with the significant growth in production volume of coal in the nation, the export volume will experience a downturn. Coal import volume in Japan, South Korea and other countries is expected to remain stable.

Impacted by the slackened global economy growth, structural adjustment of energy, slow energy consumption growth and other factors, it is expected that coal demand in 2017 will decrease steadily and the price of thermal coal will drop.

3. Market environment of the power industry

Review for 2016

In 2016, as a result of the steady improvement trend of macro economy, the low base for the same period in 2015, the high temperature in summer and other factors, the power consumption of the whole society remained a relatively rapid growth. The cumulative power consumption of the whole society was 5,919.8 billion kWh, representing a year-on-year growth of 5.0% and an increase of 4 percentage points in growth rate as compared with that of 2015.

The installed capacity of the power generation generators nationwide will continue to increase. As at the end of 2016, the power generation generators of power plants nationwide with an installed capacity of 6,000kW or above reached 1.65 billion kW, representing a growth of 8.2% as compared with the end of last year, of which the installed capacity of thermal power was 1.05 billion kW, representing a growth of 5.3% and a year-on-year decrease of 2.5 percentage points in growth. The installed capacity of power generation by non-fossil energy such as hydropower and nuclear power will continue to increase with a high speed.

Thermal power generation by power plants above the scale in the PRC amounted to 4,395.8 billion kWh, representing a year-on-year growth of 2.6%; while hydropower generation amounted to 1,051.8 billion kWh, representing a year-on-year growth of 5.9%. As influenced by the relative overcapacity of thermal power generation, the increase in power generation capacity by non-fossil energy and other factors, the utilisation hours of thermal power generators was 4,165 hours during the year, representing a year-on-year decrease of 199 hours and being a new low since 1964; the average utilisation hours of hydropower and wind power generators remained a year-on-year increase.

The nationwide demand and supply of power was generally on ease. There was a balanced demand and supply of power in northern region and an easing demand and supply of power in eastern, central and southern regions in general, while there was sufficient power supply in northeastern and northwestern regions.

Prospects for 2017

In 2017, in consideration of factors including the macro economy and the expected growth in power consumption of the service industry and for domestic use, it is expected that the demand of power consumption for the year will remain at a growing momentum.

In 2017, the power supply nationwide will be adequate. It is expected that the momentum of rapid increase of installed capacity of thermal power generators will be under effective control and the proportion of installed capacity of power generation by non-fossil energy will further increase.

The demand and supply of power nationwide in 2017 will remain at the overall stagnant trend and the power consumption structure and regional demand and supply distribution will remain basically the same as last year. It is expected that the utilisation hours of thermal power generators for the year will continue to experience a year-on-year downturn under the influence of the increase in power generation capacity by non-fossil energy and other factors. By virtue of the rise of coal-fired power generation costs, thermal power generation enterprises will encounter more severe difficulties and challenges.

4. Impact of the "Thirteen Five-Year" Plan on Coal and Electricity Market

Adhering to the "clean, low-carbon, efficient and concentrated" principal determined by the "Thirteen Five-Year" Plan for the Development of Coal Industry, excessive and obsolete production capacity will be eliminated by approximately 800 million tonnes per year while advanced production capacity will be increased by 500 million tonnes per year through replacement of existing capacities with less amount and layout optimisation during the "Thirteen Five-Year" Plan Period, hence the production capacity of coal is expected to reach 3.9 billion tonnes by 2020. The country strives to further centralise the national coal production and development towards large-scale coal production bases and further optimise the coal production structure in order to further raise the degree of concentration of the industry. Meanwhile, the construction of intelligent coal mines and eco-civilized mining areas will be proactively pushed forward to enhance the quality and the clean and efficient use of coal products, which enables the clean development and utilisation of coal to enter into a new stage. It is expected that, by the end of the "Thirteen Five-Year" Plan Period, the overcapacity in coal industry will be further mitigated with a more balanced market demand and supply and a significantly optimised industry structure, and substantive progress will be achieved for transformation to clean and efficient coal utilisation in the coal industry.

According to the "Thirteen Five-Year" Plan for the Development of Electricity, by 2020, the proportion of the installed capacity of power generators of non-fossil energy will be approximately 39%, representing a year-on-year increase of 4 percentage points as compared with that of 2015, while the proportion of power generation will increase to 31%, and the effects of alternative power generation by non-fossil energy will further emerge. Acceleration in the transformation and upgrade of coal power generation, stringent control on planning and construction of coal power plants and reasonable control on the construction progress of coal power generation base are necessary for promoting the transformation and upgrade of coal power generation and the orderly development of clean coal utilisation. During the "Thirteen

Five-Year" Plan Period, the scale of the installed capacity of coal power generators nationwide is strived to be controlled within 1.1 billion kW and the proportion will decrease to approximately 55% while the postponement and cancelation of coal power construction projects exceed 150 million kW. It is expected that the rapid growth in installed capacity of thermal power generators will be subject to change during the period of "Thirteen Five-Year" Plan, and the coal-fired power plants which firstly complete the clean transformation will have a space for survival and development among the market competition.

(II) Development Strategy of the Company

1. China Shenhua's opportunities for future development

As a major energy source and industrial material, coal will remain as one of the primary energy sources in China in the medium and long term. It offers fundamental protection of a safe and stable supply of energy in China. The safe, green and efficient development as well as the technology of clean, efficient and low-carbon utilisation of coal can further explore the use of coal.

The market share of coal-fired power generation has declined but its dominant position has not changed. As clean and efficient coal-fired power generation technology keeps improving, the competitiveness of high-quality thermal power will be enhanced, which in turn provides a key support for the development of the industry.

The concept of "the Belt and Road" strategy initiated by China provides important external opportunities for exploring international markets, which creates enormous potential in overseas business development.

The supply-side reform will accelerate the elimination of backward production capacity and promote mergers and acquisitions of coal and electric power enterprises in order to achieve large-scale and clean development. New acquisitions and investment opportunities will come along with the state's transport corridor and local railway construction. The advancement of technology will also provide investment opportunities for promoting technology industrialization.

2. ***China Shenhua's future main challenges:***

In 2017, the new normal state of the coal industry will become defined. The development mode of coal industry on the expansion of output and capacity has changed, which in turn causes changes in the market competition model.

The slow international economy recovery and the national economy structure under adjustment will slacken the growth in the demand for energy, including coal. The coal market will fluctuate and the pressure for falling coal prices will linger in long term despite the recovery of coal price in 2016.

The power business has encountered more difficulties in accelerating development. The growth in demand for power will decrease as affected by the slow growth in economy; the government accelerated the adjustment of the power structure, and imposes a strict limit on the newly installed capacity of coal-fired power; factors such as the structural reform of the power industry will intensify the competition in the industry.

With regard to the tightening regulation on energy and the environment, the potential risks posed by environmental and ecological protection are gradually increasing. The entry requirements for coal exploitation and coal-fired power development and standards for energy saving, environmental protection and production safety, etc. are becoming more stringent. Restraints on water resources and significant investment in infrastructure are the key factors that affect the development of the coal chemical business.

3. ***Development Strategy of China Shenhua***

China Shenhua will step up the implementation of the clean energy development strategy. Focusing on the goal of "building itself into a world first-class supplier of clean energy", China Shenhua will accelerate the change in the concept and mode of development and facilitate the four developments, namely "safe development, transitional development, innovative development and harmonious development", and achieve the "five enhancements", namely "enhancing the quality and efficiency of development, the standards of management, the capability of internationalization, the soft power of the enterprise and the ability to fulfill social responsibilities." With the emphasis on optimising and strengthening the integrated operation model based on the concept of clean development, China Shenhua will reinforce coal sales to promote clean coal products, develop signature products for Shenhua, strengthen the integrated operation of coal production, transportation and marketing, improve the production chain of clean and efficient exploration, utilisation and conversion of coal, and refine the technological system of clean combustion and efficient conversion of coal to form a reliable income source. Furthermore, China Shenhua will initiate new businesses in line with the direction of future development, progressively develop overseas business and actively reach out to the power sales market. Also, it will launch the macroscopic logistics business provided that its transportation capacity meets its demand, so as to explore new room for development and create new points of profit growth. Through the implementation of clean energy strategy, China Shenhua improves its comprehensive competitiveness, profitability and risk resilience, adhere to the continuity and stability of the profit distribution policy, and dutifully assume its social responsibility, building China Shenhua into a reputable international company and creating greater value for its shareholders.

(III) Business Targets for 2017

Item	Unit	**Target of 2017**	Accomplishment in 2016	Increase/ (decrease) *(%)*
Commercial coal production	100 million tonnes	**2.98**	2.898	2.8
Coal sales	100 million tonnes	**4.07**	3.949	3.1
Power output dispatch	billion kWh	**214.7**	220.57	(2.7)
Revenue	RMB100 million	**2,036**	1,831.27	11.2
Cost of sales	RMB100 million	**1,428**	1,248.43	14.4
Selling, general and administrative expenses and net finance costs	RMB100 million	**147**	140.58	4.6
Amount of change in unit production cost of the self-produced coal	/	**Year-on-year decrease ranging 1% to 2%**	Year-on-year decrease of 11.0%	/

As influenced by factors such as rebound of coal price, the year-on year increase in profit for the period attributable to equity holders of the Company in January to March 2017 is expected to reach or exceed 50%.

The above business targets and estimates are subject to 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.

(IV) Capital expenditures plans for 2017

Unit: RMB100 million

	Plans for 2017		Accomplishment in 2016
	Total amount	**Of which: first batch**	
1. Coal segment		**17.6**	58.3
2. Power segment		**109.5**	178.3
3. Transportation segments		**41.6**	55.7
Of which: Railway		**38.2**	38.2
Port		**3.0**	17.4
Shipping		**0.4**	0.1
4. Coal chemical segment		**0.8**	1.0
5. Others		**0.0**	0.5
Total	**350**	**169.5**	293.8

Total capital expenditures of 2016 amounted to RMB29.38 billion, which were mainly used for (1) power segment: constructions including the Jiangxi Jiujiang New Coal Reserve (Transit) and Power Generation Integration Project of Shenhua Guohua, Phase II of Guohua Ningdong Power Expansion Project, Luoyuan Bay Coal Storage Integrated Power Plant Project of Shenhua Fujian, and Fuping Thermal Power Project; (2) coal segment: coal mining in and consideration payment for mining rights for Shendong Mines, Zhunge'er Mines and other mines, and the construction of Qinglongsi Coal Mine and Coal Processing Plant; and (3) transportation segment: the construction of Huangda Railway, constructions along Zhunchi Railway and Shenshuo 10,000-tonne Train Expansion Project. Total capital expenditures of 2016 exceeded the annual budget plan, mainly attributable to the consideration payment for mining rights for certain mines in Shendong Mines, Zhunge'er Mines and Baorixile Mines, and the acquisition of land use rights by Shenhua Zhuhai Coal Dock.

Based on the principles of maintaining the strict limit of investment scale and the continuity of major construction projects, the Board approved total planned capital expenditures of 2017 of no more than RMB35 billion (exclusive of equity and asset acquisitions), and implemented in batches. The first batch of planned capital expenditures of 2017 amounted to RMB16.95 billion. Regarding the capital expenditures for coal segment, the expenditures for maintaining production capacity and conducting technology transformation amounted to approximately RMB1.41 billion, the expenditures for equipment procurement amounted to approximately RMB0.27 billion, and the expenditures approved for the construction of new coal mines amounted to approximately RMB0.08 billion. Regarding the capital expenditures for power segment, the expenditures for the construction of new projects and expansion projects (inclusive of equipment procurement) amounted to approximately RMB10.29 billion, and the expenditures for green technology reform of "ultra-low emission" of plants amounted to approximately RMB0.66 billion.

The capital expenditure plans of the Group in 2017 are subject to the development of business plans (including potential acquisitions), progress of investment projects, market conditions, outlook for future operation environment and the obtaining of the requisite permissions and approval documents. Unless required by laws, the Company shall not assume any responsibilities for updating the data of its capital expenditure plans. The Company intends to finance its capital expenditures by cash generated from operating activities, short-term and long-term borrowings, and other debt and equity financing.

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 investment returns for investors. The Company shall give priority to profit distribution in cash dividends. Subject to conditions, interim profit distribution may be made by the Company. 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 or 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. Final dividend scheme/plan for the year

Year	Dividend per 10 shares (inclusive of tax)	Amount of cash Dividend (inclusive of tax)	Profit for the year 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 (Unrestated)	Percentage to the profit for the year attributable to equity holders of the Company in the consolidated financial statements
	RMB	*RMB million*	*RMB million*	*%*
Final dividend for 2016 (Proposed)	4.6	9,149	22,712	40.3
Final dividend for 2015	3.2	6,365	16,144	39.4
Final dividend for 2014	7.4	14,718	36,807	40.0

Profit distribution plan for the year 2016. Net profit for the year attributable to equity holders of the Company for 2016 under the Accounting Standards for Business Enterprises amounted to RMB22,712 million, with basic earnings per share of RMB1.142/share; profit for the year attributable to shareholders of the Company under the International Financial Reporting Standards amounted to RMB24,910 million, with basic earnings per share of RMB1.252/share. As at 31 December 2016, the retained earnings available for distribution to shareholders of the Company under the Accounting Standards for Business Enterprises amounted to RMB153,846 million.

The Board recommends the payment of a cash dividend of RMB0.46 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 2016, totaling RMB9,149 million (inclusive of tax), which represents 40.3% of the net profit for the year attributable to shareholders of the Company under the Accounting Standards for Business Enterprises and 36.7% of the profit for the year attributable to shareholders of the Company under the International Financial Reporting Standards.

2. Special Dividend Plan

The Board recommends the payment of a special dividend in cash of RMB2.51 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 2016, totaling RMB49,923 million (inclusive of tax), accounting for 32.4% of the retained earnings of RMB153,846 million available for distribution to shareholders of the Company as at 31 December 2016 (before deducting the amount of RMB9,149 million under the 2016 final dividend plan) under the Accounting Standards for Business Enterprises.

3. The above 2016 final dividend plan and special dividend plan are in compliance with the requirement of the Articles of Association and endorsed by the independent directors and approved by the Board of the Company. When recommending the final dividend plan for 2016 and special dividend plan, the Board has fully attended to and considered the opinions and concerns of the shareholders of the Company, in particular the minority shareholders. The Company will hold the 2016 annual general meeting on Friday, 23 June 2017 to consider and approve the relevant resolutions, including the above dividend plans as proposed by the Board.

4. The final dividend for 2016 and the special dividend distributed by the Company are denominated and declared in RMB and will be distributed together. The final dividend for 2016 and the special dividend 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 (hereinafter referred to as the "Southbound Shareholders") are paid in RMB. 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 and annual general meeting of the Company for the year 2016, the final dividend of the Company's H shares for the year 2016 and special dividend are estimated to be distributed on or about 22 August 2017.

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

(1) After the Shanghai Stock Exchange is closed in the afternoon on Wednesday, 24 May 2017, 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 2016 annual general meeting of the Company;

(2) Under the relevant regulations of China Securities Depository and Clearing Corporation Limited Shanghai Branch and according to the market practice adopted for final dividend distribution for A shares, the Company will publish a separate announcement in respect of final dividend for year 2016 and special dividend distribution to holders of A shares (including the Northbound Shareholders) after the 2016 annual general meeting to determine the record date, ex-rights date and dividend distribution date for final dividend for year 2016 and special dividend distribution to holders of A shares.

6. ***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 2016 annual general meeting	24 May 2017, Wednesday	23 June 2017, Friday	23 May 2017, Tuesday 4:30 p.m.	Computershare Hong Kong Investor Services Limited
2	Entitled to final dividend and special dividend for the year 2016	3 July 2017, Monday	7 July 2017, Friday	30 June 2017, Friday 4:30 p.m.	Computershare Hong Kong Investor Services Limited

7. 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 final dividend for year 2016 and special dividend 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 7 July 2017.

8. 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 7 July 2017 as the criterion in determining the residence of the individual shareholders of H shares who are entitled to receive the final dividend for year 2016 and special dividend 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 30 June 2017 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.

9. 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 shall receive cash dividends distributed by the Company as the nominee of the Southbound Shareholders 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)", 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. For Mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai-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 Investors are the same as that of the Company's shareholders of H shares.

10. 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.

CORPORATE GOVERNANCE

The Company has adopted the corporate governance policies as set out in Appendix 14 of the Hong Kong Listing Rules, and established its own system of corporate governance. As of 31 December 2016, the Company has been in full compliance with the principles and code provisions and most of the recommended best practices as specified therein.

Performance of Board Committees during the Reporting Period

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

	The third session	
Committee	**Chairman**	**Members**
Strategy Committee	Zhang Yuzhuo	Zhang Yuzhuo, Ling Wen, Han Jianguo
Audit Committee	Gong Huazhang	Gong Huazhang, Fan Hsu Lai Tai, Guo Peizhang, Chen Hongsheng
Remuneration Committee	Fan Hsu Lai Tai	Fan Hsu Lai Tai, Gong Huazhang, Zhao Jibin
Nomination Committee	Guo Peizhang	Guo Peizhang, Zhang Yuzhuo, Fan Hsu Lai Tai
Safety, Health and Environment Committee	Guo Peizhang	Guo Peizhang, Ling Wen, Han Jianguo, Li Dong

Note: Upon the consideration and approval at the 17th meeting of the third session of the Board of the Company held on 1 July 2016, Li Dong was appointed as a member of the Safety, Health and Environment Committee under the Board and Zhao Jibin was appointed as a member of the Remuneration Committee under the Board.

1. Strategy Committee

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

In 2016, the Strategy Committee of the Board held three meetings to consider resolutions such as the amendment to administrative measures on investment of the Company, the 2017 annual production plan of China Shenhua, and 2017 annual size of investment of China Shenhua, all of which were approved at the meetings. All members of the Committee attended all meetings in person.

2. *Audit Committee*

The principal 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 and 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 carried out 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 2016, the Audit Committee held eight meetings to consider resolutions such as the financial reports and internal control reports of the Company. Suggestions were made on improving the management of accounts receivable and maintaining reasonable size of monetary capital. All resolutions were approved at the meetings and all members of the Committee attended all meetings in person.

The Audit Committee has performed, required procedures for the preparation of the 2016 annual report and internal control report of the Company:

(1) Before the accounting firms for 2016, namely Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu ("Deloitte"), proceeded with on-site auditing, the Audit Committee had consulted with Deloitte to determine the timing of the Company's 2016 audit. On 25 October 2016, the Audit Committee reviewed the Company's plans for the audit plan for the year 2016; on 25 October 2016, the Audit Committee reviewed the internal control assessment plan for the year 2016.

(2) After Deloitte had issued its preliminary audit opinions, the Audit Committee reviewed the draft financial statements for 2016. On 27 February 2017, the Audit Committee reviewed the 2016 Assessment Report on Internal Control (Draft) and 2016 Financial Statements (Draft) of China Shenhua prepared by the Company.

(3) The Audit Committee received briefings by the management to understand the overall operation of the Company during the reporting period. On 13 March 2017, the Audit Committee received a briefing given by Dr. Zhang Kehui, the Chief Financial Officer of the Company, on the accounting policies and the preparation of the financial statements.

(4) Deloitte completed all audit procedures within the agreed time and intended to issue a standard unqualified audit report for 2016 to the Audit Committee. On 13 March 2017, the Audit Committee voted on the audited annual financial statements, the assessment report on internal control and the corporate social responsibility report for the year 2016 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, the 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, the president and other senior management of the Company perform their duties and carry out annual performance assessment on them; and to supervise the implementation of the remuneration system of the Company. The Remuneration Committee is delegated by the Board to determine the specific remuneration package, including non-monetary benefits, pension and compensation (including compensation for loss or termination of office or appointment) for all executive directors, supervisors, the president and other senior management, to ensure that none of the directors or any of their associates can determine their own remuneration; and to carry out other matters as authorised by the Board.

In 2016, the Remuneration Committee held two meetings to consider resolutions including the remuneration packages of directors, supervisors and senior management for the year 2015, all of which were approved at the meeting. All members of the Committee attended all the meetings in person. During the reporting period, the Remuneration Committee reviewed the remuneration management system of the Company and the remuneration level for directors, supervisors, the 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; assess and verify the independence of independent non-executive directors; draft procedures and criteria for election and appointment of directors, the president and other senior management and make recommendations to the Board; extensively seek for qualified candidates of directors, the president and other senior management; examine the aforementioned candidates and make recommendations; nominate candidates for members of the Board Committees (other than members of the Nomination Committee and the chairman of any Board Committee); draft development plans for the president, other senior management and key reserve talents; 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 disclose the results of review in the Corporate Governance Report annually; and carry out any other matters as authorised by the Board.

In 2016, the Nomination Committee held three meetings to consider resolutions including the nomination of director candidates and substitute members of relevant special committees under the Board, all of which were approved at the meetings. All members of the Committee 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; make recommendations to the Board or the president on material issues in respect of health, safety and environmental protection of the Company; inquire into the material incidents regarding the Company's production, operations, property assets, staff or other facilities; as well as review and supervise the resolution of such incidents and carry out other matters as authorised by the Board.

In 2016, the Safety, Health and Environment Committee held one meeting to consider the 2015 CSR Report, and the resolution was approved at the meeting. All members of the Committee attended the meeting in person.

During the reporting period, the Committees under the Board did not express any dissenting views in performing their duties.

Others

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any securities of the Company as defined in the Hong Kong Listing Rules.

ANNUAL REPORT

The 2016 annual report will be published on the website of the Hong Kong Stock Exchange in due course.

The 2016 annual report, which contains consolidated financial statements for the year ended 31 December 2016, with an unqualified auditors' report, will be despatched to shareholders as well as made available on the Company's website at http://www.csec.com.

DEFINITIONS

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

Shenhua Group Corporation	Shenhua Group Corporation Limited
Shenhua Group	Shenhua Group Corporation Limited and its controlling subsidiaries
China Shenhua/the Company	China Shenhua Energy Company Limited
The Group	The Company and its controlling subsidiaries
Shendong Coal Group Corporation	Shenhua Shendong Coal Group Co., Ltd.
Shendong Power Company	Shenhua Shendong Power Co., Ltd.
Zhunge’er Energy Company	Shenhua Zhunge’er Energy Co., Ltd.
Shuohuang Railway Company	Shuohuang Railway Development Co., Ltd.
Shenhua Trading Group	Shenhua Trading Group Limited
Huanghua Harbour Administration Company	Shenhua Huanghua Harbour Administration Co., Ltd.
Baotou Energy Company	Shenhua Baotou Energy Co., Ltd.
Baotou Coal Chemical Company	Shenhua Baotou Coal Chemical Co., Ltd.
Shenhua Zhuhai Coal Dock	Shenhua Yudean Zhuhai Port Coal Dock Co., Ltd.
Overseas Company	China Shenhua Overseas Development & Investment 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 Hulunbeier Power	Inner Mongolia Guohua Hulunbeier 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.
Zhuhai Wind Energy	Zhuhai Guohua Huidafeng Wind Energy Development Co., Ltd.

Huizhou Thermal	Guohua Huizhou Thermal Power Branch of the Company
Ningdong Power	Ningxia Guohua Ningdong Power Generation Co., Ltd.
Xuzhou Power	Guohua Xuzhou Power Generation Company Limited
Zhoushan Power	Shenhua Guohua (Zhoushan) Power Generation Co., Ltd.
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.
Shenhua Guangdong Power Sales Company	Shenhua Guohua Guangdong Power Sales Co., Ltd.
Jawa Company	Shenhua Guohua (Indonesia) Jawa Power Generation Co., Ltd.
JORC	Australasian Code for Reporting of Mineral Resources and Ore Reserves
Shanghai Stock Exchange	Shanghai Stock Exchange
Hong Kong Stock Exchange or Stock Exchange	The Stock Exchange of Hong Kong Limited
Shanghai Listing Rules	Rules Governing the Listing of Stocks on Shanghai Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Accounting Standards for Business Enterprises	the latest Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and the related application guidance, interpretations and other related requirements
International Financial Reporting Standards	International Financial Reporting Standards issued by the International Accounting Standards Committee
Articles of Association	Articles of Association of China Shenhua Energy Company Limited
EBITDA	Profit for the year + net finance costs + income tax expenses + depreciation and amortisation – shares of results of associates
Total debt to total debt and total equity ratio	[Long-term interest bearing debts + short-term interest bearing debts (including bills payable)]/ [Long-term interest bearing debts + short-term interest bearing debts (including bills payable) + total equity]
Shanghai-Hong Kong Stock Connect	A mutual access mechanism between Shanghai and Hong Kong stock markets under which Shanghai Stock Exchange and Hong Kong Stock Exchange allow investors from Shanghai and Hong Kong to trade eligible shares listed on the other's market through local securities firms (or brokers), which comprises Shanghai Stock Connect and Hong Kong Stock Connect
RMB	Renminbi unless otherwise specified

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

Beijing, 17 March 2017

As at the date of this announcement, the Board comprises the following: Dr. Zhang Yuzhuo, Dr. Ling Wen, Dr. Han Jianguo and Dr. Li Dong as executive directors, Mr. Chen Hongsheng and Mr. Zhao Jibin as nonexecutive directors, and Ms. Fan Hsu Lai Tai, Mr. Gong Huazhang and Mr. Guo Peizhang as independent non-executive directors.