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東方電氣股份有限公司
DONGFANG ELECTRIC CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 1072)

RESULTS ANNOUNCEMENT FOR THE YEAR 2016

FINANCIAL HIGHLIGHTS

- Total operating revenue of the Company in 2016 amounted to RMB33.286 billion, representing a decrease of 7.59% as compared with the corresponding period of 2015;
- Net profit attributable to the shareholders of the Company in 2016 amounted to RMB-1,784 million, representing a decrease of 506.38% as compared with the corresponding period of 2015;
- Earnings per share of the Company in 2016 were RMB-0.76;
- New orders of the Company in 2016 were approximately RMB36.6 billion.

The board of directors (the “**Board**”) of Dongfang Electric Corporation Limited (the “**Company**”) announces that the audited annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2016 (the “**Reporting Period**”) prepared in accordance with the China Accounting Standards for Business Enterprises:

I. FINANCIAL INFORMATION

Consolidated Balance Sheet

31 December 2016

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Assets:			
Cash and cash equivalents		28,408,778,336.14	21,087,539,125.49
Clearing provision			
Funds for lending			
Financial assets at fair value through profit or loss		59,661,930.59	36,079,098.10
Derivative financial assets			
Notes receivable		4,917,792,022.12	4,340,955,431.92
Accounts receivable	2	15,954,481,388.79	17,290,192,715.92
Prepayments		2,513,937,554.91	3,299,961,538.85
Premium receivable			
Amounts receivable under reinsurance contracts			
Reinsurer's share of insurance contract reserves			
Interests receivable		373,159,473.91	297,206,934.58
Dividends receivable			
Other receivables		245,140,412.85	366,296,279.41
Financial assets purchased under resale agreements			
Inventories		19,871,046,530.61	26,899,590,387.82
Assets classified as held for sale			
Non-current assets due within one year			
Other current assets		293,077,796.09	335,373,683.92
Total Current Assets		<u>72,637,075,446.01</u>	<u>73,953,195,196.01</u>

Unit: RMB

Item	<i>Notes</i>	Closing balance	Opening balance
Non-current Assets:			
Loans and advances			
Financial assets available-for-sale		3,100,000.00	3,100,000.00
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments		1,447,245,662.23	1,066,013,723.84
Investment properties		111,942,870.46	70,560,947.99
Fixed assets		7,617,279,165.25	8,099,246,237.21
Constructions in process		107,598,422.31	447,801,742.11
Construction materials		113,464.96	113,464.96
Fixed assets on disposal		48,257.24	24,979.33
Productive biological assets			
Oil and gas assets			
Intangible assets		911,701,102.64	946,229,278.85
Development expenditure			
Goodwill			
Long-term deferred expenses		1,075,608.94	344,000.22
Deferred income tax assets		1,864,994,092.61	1,547,269,129.51
Other non-current assets		426,208.77	524,564.64
Total Non-current Assets		<u>12,065,524,855.41</u>	<u>12,181,228,068.66</u>
TOTAL ASSETS		<u>84,702,600,301.42</u>	<u>86,134,423,264.67</u>

Unit: RMB

Item	<i>Notes</i>	Closing balance	Opening balance
Current Liabilities			
Short-term Loans		284,500,000.00	1,642,000,000.00
Loans from the central bank			
Customer deposits and deposits from banks and other financial institutions			
Taking from banks and other financial institutions			
Financial liability at fair value through profit or loss		10,372,195.96	5,853,124.58
Derivative financial liabilities			
Notes Payable		5,276,331,920.02	4,657,772,328.81
Accounts Payable	3	14,380,312,585.36	15,179,533,382.72
Receipts in advance		35,566,439,682.61	34,846,467,692.38
Financial assets sold under repurchase agreements			
Fees and commissions payable			
Employee benefits payable		427,869,549.45	396,074,204.46
Taxes payable		566,207,934.48	518,222,871.19
Interest payable		736,111.11	1,776,111.10
Dividends payable		2,787,911.77	3,144,122.09
Other payables		1,965,909,372.89	1,774,765,747.04
Amounts payable under reinsurance contracts			
Insurance contract reserves			
Funds from securities trading agency			
Funds from underwriting securities agency			
Liabilities classified as held for sale			
Non-current liabilities due within one year		731,379,338.40	354,320,000.00
Other current liabilities		77,113,715.51	103,512,042.66
Total Current Liabilities		<u>59,289,960,317.56</u>	<u>59,483,441,627.03</u>

Unit: RMB

Item	Notes	Closing balance	Opening balance
Non-current Liabilities			
Long-term borrowings		536,940,000.00	718,820,000.00
Bonds payable			
Including: Preferred stock			
Perpetual debts			
Long-term payables		16,537,992.70	
Long-term accrued payroll		462,107,103.50	142,868,920.51
Special payables		58,062,614.63	58,062,614.63
Estimated liabilities		1,771,952,763.14	1,330,193,012.30
Deferred income		473,991,696.19	408,634,664.10
Deferred income tax liabilities		7,292,893.73	14,813,276.16
Other non-current liabilities			
Total Non-current Liabilities		3,326,885,063.89	2,673,392,487.70
TOTAL LIABILITIES		62,616,845,381.45	62,156,834,114.73
OWNERS' EQUITY:			
Share capital		2,336,900,368.00	2,336,900,368.00
Other equity instruments			
Including: Preferred stock			
Perpetual debts			
Capital reserves		8,828,262,489.81	8,828,516,983.85
Less: Treasury shares			
Other comprehensive income		-28,762,895.01	-34,093,733.04
Special reserves		45,314,931.41	33,167,401.60
Surplus reserves		769,092,997.56	730,751,423.51
General risk reserves			
Undistributed profits	4	9,193,484,301.02	11,156,346,701.91
Total owners' equity attributable to equity holders of the Company		21,144,292,192.79	23,051,589,145.83
Minority shareholder's equity		941,462,727.18	926,000,004.11
TOTAL OWNERS' EQUITY		22,085,754,919.97	23,977,589,149.94
TOTAL LIABILITIES AND OWNERS' EQUITY		84,702,600,301.42	86,134,423,264.67

Consolidated Income Statement

For the year 2016

Unit: RMB

Item	Note	Amount for the current period	Amount for the prior period
I. Total revenue		33,285,723,808.34	36,017,943,700.32
Including: Operating income	5	33,285,723,808.34	36,017,943,700.32
Interest income			
Premium earned			
Fee and commission income			
II. Total operating costs		35,521,296,310.11	35,804,857,985.80
Including: Operating costs	5	29,277,766,070.66	29,959,761,391.90
Interest expenses			
Fee and commission expenses			
Surrenders			
Claims and policyholder benefits (net of a mounts recoverable from reinsurers)			
Changes in insurance contract reserves (net of reinsurers' share)			
Insurance policyholder dividends			
Expenses for reinsurance accepted			
Tax and levies		377,711,750.58	330,076,838.27
Sales expenses		1,446,957,948.09	964,883,532.33
Administrative expenses		3,562,680,183.45	3,361,762,730.46
Finance costs		-641,457,176.95	-477,001,415.20
Impairment loss of assets		1,497,637,534.28	1,665,374,908.04
Add: Gains from changes in fair values (Losses are indicated by "-")		-4,895,327.47	-20,939,890.13
Investment income (Loss is indicated by "-")		244,534,695.61	191,836,520.22
Including: Income from investments in associates and joint ventures		246,351,801.03	165,611,516.59
Foreign exchange gains (Losses are indicated by "-")			
III. Operating profit (Loss is indicated by "-")		-1,995,933,133.63	383,982,344.61
Add: Non-operating income		219,422,545.80	227,912,649.23
Including: Gain from disposal of non-current assets		3,406,076.57	17,450,857.66
Less: Non-operating expenses		167,553,419.82	78,995,557.02
Including: Losses from disposal of non-current assets		8,842,983.53	4,044,719.71

Unit: RMB

Item	Note	Amount for the current period	Amount for the prior period
IV. Total profit (Total loss is indicated by “-”)		-1,944,064,007.65	532,899,436.82
Less: Income tax expenses	6	-184,625,607.38	73,401,825.32
V. Net profit (Net loss is indicated by “-”)		-1,759,438,400.27	459,497,611.50
Net profit attributable to owners of the Company		-1,784,306,804.76	439,072,644.82
Profit or loss attributable to minority interests		24,868,404.49	20,424,966.68
VI. Other comprehensive income (net of tax)		5,330,615.51	1,786,267.55
Net amount of other comprehensive income attributable to Owners of the Company		5,330,838.03	1,786,259.12
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Changes of net liabilities or net assets arising from the re-measurement of defined benefit plans			
2. Share of other comprehensive income (that will not be reclassified to profit or loss) of investees accounted for using equity method			
(II) Other comprehensive income that may be reclassified subsequently to profit or loss		5,330,838.03	1,786,259.12
1. Share of other comprehensive income of the investees which can be reclassified into profit or loss under equity method subsequently			
2. Gain or loss from changes in fair value of available-for-sale financial assets			
3. Gain or loss from held-to-maturity investment reclassified as available-for-sale financial assets			
4. Effective portion of profit or loss from cash flows hedges			
5. Exchange differences from translation of financial statements		5,330,838.03	1,786,259.12
6. Others			
Other comprehensive income attributable to minority shareholders, net		-222.52	8.43
VII. Total comprehensive income		-1,754,107,784.76	461,283,879.05
Total comprehensive income attributable to the shareholders of the parent company		-1,778,975,966.73	440,858,903.94
Total comprehensive income attributable to minority shareholders		24,868,181.97	20,424,975.11
VIII. Earnings per share:	7		
(I) Basic earnings per share		-0.76	0.19
(II) Diluted earnings per share		-0.76	0.19

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The financial statements have been prepared base on the actual transactions and matters on a going concern basis, in accordance with Accounting Standards for Business Enterprises and the relevant requirements (collectively, the “Accounting Standards for Business Enterprises”) issued by the Ministry of Finance of the PRC and the disclosure requirements under Rules No.15 for Information Disclosure by Companies Offering Securities to the Public – General Provisions on Financial Statements (Revised in 2014) of the China Securities Regulatory Commission, the Rules Governing the Listing of Securities on Hong Kong Stock Exchange and the Hong Kong Companies Ordinance based on the accounting policies and accounting estimates set out in “4. Critical Accounting Policies and Accounting Estimates” in notes to the financial statements.

(2) Going concern

The Group considers that it is reasonable to prepare the financial statements on a going concern basis given the recent profit-making history and sourced financial support of the Group.

2. ACCOUNTS RECEIVABLE

Unit: RMB

Item	Amount at the end of the year	Amount at the beginning of the year
Accounts receivable	21,621,594,717.31	22,651,799,981.91
Less: provision for bad debts	<u>5,667,113,328.52</u>	<u>5,361,607,265.99</u>
Net amount	<u>15,954,481,388.79</u>	<u>17,290,192,715.92</u>

(1) Ageing analysis of accounts receivable

Unit: RMB

Age	Amount at the end of the year	Amount at the beginning of the year
Within 1 year	7,793,619,803.77	8,618,798,739.75
1-2 years	4,273,983,361.46	4,652,766,404.57
2-3 years	2,309,986,085.52	2,305,625,401.90
3-4 years	1,008,046,862.66	924,611,128.94
4-5 years	568,845,275.38	788,391,040.76
Net amount	15,954,481,388.79	17,290,192,715.92

The ageing analysis is made based on the date of relevant invoice, settlement notes and other materials used to confirm the accounts receivable.

3. ACCOUNTS PAYABLE

Unit: RMB

Age	Amount at the end of the year	Amount at the beginning of the year
Within 1 year	9,246,484,205.53	11,461,962,902.40
1-2 years	2,992,948,671.28	2,080,214,592.88
2-3 years	1,033,600,357.97	644,858,826.54
Over 3 years	1,107,279,350.58	992,497,060.90
Total	14,380,312,585.36	15,179,533,382.72

The ageing analysis is made based on the date of relevant invoice, settlement notes and other materials used to confirm the accounts payable.

4. UNDISTRIBUTED PROFITS

(1) Amount for the year

Unit: RMB

Item	Amount	The proportion of appropriation or allocation
Amount at the end of last year	11,156,346,701.91	
Amount at the beginning of the year	11,156,346,701.91	
Add: Net profits attributable to shareholders of Parent Company for the year	-1,784,306,804.76	
Less: Appropriation to statutory surplus reserve	38,341,574.05	10%
Dividends payable on ordinary shares	140,214,022.08	
Amount at the end of the year	9,193,484,301.02	

The dividends on ordinary shares distributed by the Company to shareholders this year represented the dividends distributed under the Proposal for the distribution of profits after tax of the Company for the year 2015 as considered and passed at the 2015 annual general meeting of the Company held on 24 May 2016. The cash dividends of RMB0.60 (tax inclusive) for every ten shares for the year 2015 were distributed to all shareholders based on the 2,336,900,368 shares in the total share capital of the Company at the end of 2015, totaling RMB140,214,022.08 (tax inclusive).

(2) Amount for last year

Unit: RMB

Item	Amount	The proportion of appropriation or allocation
Amount at the end of previous year	10,984,243,829.02	
Amount at the beginning of the year	10,984,243,829.02	
Add: Net profits attributable to shareholders of Parent Company for the year	439,072,644.82	
Less: Appropriation to statutory surplus reserve	56,648,738.81	10%
Dividends payable on ordinary shares	210,321,033.12	
Amount at the end of last year	11,156,346,701.91	

5. OPERATING REVENUE AND OPERATING COST

Unit: RMB

Item	Amount for the year		Amount for the last year	
	Revenue	Cost	Revenue	Cost
Principal operation	33,108,359,821.73	29,164,503,964.42	35,769,640,560.14	29,793,106,793.86
Other operations	177,363,986.61	113,262,106.24	248,303,140.18	166,654,598.04
Total	33,285,723,808.34	29,277,766,070.66	36,017,943,700.32	29,959,761,391.90

6. INCOME TAX EXPENSE

Unit: RMB

Item	Amount for the year	Amount for the last year
Income tax expense for current year	140,616,398.23	277,481,212.67
Including: China	131,712,555.83	265,683,870.51
India	163,923.17	1,982,297.75
Other regions	8,739,919.23	9,815,044.41
Deferred income tax	-325,242,005.61	-204,079,387.35
Total	-184,625,607.38	73,401,825.32

As far as corporate income tax rate is concerned, Dongfang Electric (India) Private Limited (東方電氣(印度)有限公司), Dongfang Electric (Indonesia) Private Limited (東方電氣(印尼)有限公司) and Dongfang Electric Machinery Venezuela Co., Ltd. (東方電機委內瑞拉有限責任公司), three overseas subsidiaries of the Company are subject to corporate income tax as stipulated by the local law, partial subsidiaries enjoy a preferential rate of 15%, and the rest of the subsidiaries are subject to rate of 25%.

7. EARNINGS PER SHARE

(1) Basic earnings per share

Basic earnings per share are computed by dividing the combined net profit attributable to Parent Company's shareholders of ordinary shares by the weighted average number of Parent Company's outstanding ordinary shares.

Unit: RMB

Item	This year	Last year
Combined net profit attributable to Parent Company's shareholders of ordinary shares	-1,784,306,804.76	439,072,644.82
Combined net profit attributable to Parent Company's shareholders of ordinary shares (after deducting non-recurring profit or loss)	-1,982,592,343.89	316,317,054.25
Weighted average number of outstanding ordinary shares of Parent Company	2,336,900,368.00	2,281,393,640.00
Basic earnings per share (RMB/share)	-0.76	0.19
Basic earnings per share (RMB/share) (after deducting non-recurring profit or loss)	-0.85	0.14

Process of calculating the weighted average number of ordinary shares:

Item	No.	This year	Last year
Number of outstanding ordinary shares at the beginning of the year	1	2,336,900,368.00	2,003,860,000.00
Number of shares increased as a result of the issuance of new shares or conversion of a debt instrument (II)	2		333,040,368.00
Accumulated number of months from the next month of increase in shares (II) to the end of the year	3		10
Number of months of the reporting period	4	12	12
Weighted average number of outstanding ordinary shares	$5=1+2*3/12$	2,336,900,368.00	2,281,393,640.00

(2) Diluted earnings per share

Unit: RMB

Item	This year	Last year
Combined net profit attributable to Parent Company's shareholders of ordinary shares after adjustment	-1,784,306,804.76	439,072,644.82
Combined net profit attributable to Parent Company's shareholders of ordinary shares after adjustment (after deducting non- recurring profit or loss)	-1,982,592,343.89	316,317,054.25
Weighted average number of outstanding ordinary shares of the Company after adjustment	2,336,900,368.00	2,281,393,640.00
Diluted earnings per share (RMB/share)	-0.76	0.19
Diluted earnings per share (RMB/share) (after deducting non-recurring profit or loss)	-0.85	0.14

8. SEGMENT INFORMATION

Segment information of 2016

Unit: RMB

Item	High-efficient cleaning power generation equipment	New energy	Hydroenergy and environmental protection equipment	Engineering and service	Others	Write-off	Total
Operating income	29,755,334,517.78	13,832,530,472.23	1,741,807,436.70	4,619,462,844.64	442,136,894.53	17,105,548,357.54	33,285,723,808.34
Including: External transaction income	19,674,428,536.27	7,936,769,747.08	1,604,246,497.40	3,892,915,040.98	177,363,986.61		33,285,723,808.34
Inter-segment transaction income	10,080,905,981.51	5,895,760,725.15	137,560,939.30	726,547,803.66	264,772,907.92	17,105,548,357.54	
Operating cost	26,709,168,625.32	13,085,309,142.15	1,701,283,073.49	4,436,775,087.40	367,522,391.56	17,022,292,249.26	29,277,766,070.66
Cost written off	10,151,733,087.12	5,906,076,107.15	28,591,219.20	681,631,550.47	254,260,285.32	17,022,292,249.26	
Expenses for the period					<u>4,370,858,967.20</u>	<u>2,678,012.61</u>	<u>4,368,180,954.59</u>
Operating profit (loss)	<u>3,046,165,892.46</u>	<u>747,221,330.08</u>	<u>40,524,363.21</u>	<u>182,687,757.24</u>	<u>-4,296,244,464.23</u>	<u>1,716,288,012.39</u>	<u>-1,995,933,133.63</u>
Total assets					<u>127,494,702,619.40</u>	<u>42,792,102,317.98</u>	<u>84,702,600,301.42</u>
Including: amount of substantial impairment loss on a single asset							
Total liabilities					<u>96,589,242,187.92</u>	<u>33,972,396,806.47</u>	<u>62,616,845,381.45</u>
Supplemental information Capital expenditure Recognized impairment loss of the current period					<u>2,323,845,985.41</u>	<u>826,208,451.13</u>	<u>1,497,637,534.28</u>
Including: amortization of impairment of goodwill Depreciation and amortization expenses					<u>1,087,526,337.57</u>		<u>1,087,526,337.57</u>
Non-cash expenses other than impairment loss, depreciation and amortization							

Segment information of 2015

Item	High-efficient cleaning power generation equipment	New energy	Hydroenergy and environmental protection equipment	Engineering and service	Others	Write-off	Total
Operating income	36,747,792,392.77	8,343,765,495.20	2,637,076,415.89	5,456,573,022.52	633,486,210.09	17,800,749,836.15	36,017,943,700.32
Including: External transaction income	23,032,374,907.06	4,585,390,915.67	2,629,283,402.23	5,522,591,335.18	248,303,140.18		36,017,943,700.32
Inter-segment transaction income	13,715,417,485.71	3,758,374,579.53	7,793,013.66	-66,018,312.66	385,183,069.91	17,800,749,836.15	
Operating cost	32,642,695,966.15	7,953,587,813.05	2,045,667,926.36	4,598,600,586.07	487,079,307.09	17,767,870,206.82	29,959,761,391.90
Cost written off	13,323,799,146.68	3,945,551,856.28	9,729,685.75	168,364,809.06	320,424,709.05	17,767,870,206.82	
Expenses for the period					<u>3,835,091,795.58</u>	<u>-14,553,052.01</u>	<u>3,849,644,847.59</u>
Operating profit (loss)	<u>4,105,096,426.62</u>	<u>390,177,682.15</u>	<u>591,408,489.53</u>	<u>857,972,436.45</u>	<u>-3,688,684,892.58</u>	<u>1,871,987,797.56</u>	<u>383,982,344.61</u>
Total assets					<u>125,221,798,242.11</u>	<u>39,087,374,977.44</u>	<u>86,134,423,264.67</u>
Including: amount of substantial impairment loss on a single asset							
Total liabilities					<u>91,577,901,360.94</u>	<u>29,421,067,246.21</u>	<u>62,156,834,114.73</u>
Supplemental information							
Capital expenditure							
Recognized impairment loss of the current period					<u>1,713,583,836.80</u>	<u>48,208,928.76</u>	<u>1,665,374,908.04</u>
Including: amortization of impairment of goodwill							
Depreciation and amortization expenses					<u>1,141,058,685.62</u>		<u>1,141,058,685.62</u>
Non-cash expenses other than impairment loss, depreciation and amortization							

9. INVESTMENT IN ASSOCIATED COMPANIES AND JOINT VENTURES

Unit: RMB

Invested entity	Opening balance	Additional investment	Reduced investment	Recognized investment loss/gain by equity method	Increase/decrease for the current year			Announcement of distribution of cash dividends or profit	Provision for impairment	Others	Closing balance	Balance provided for impairment at the end of the year
					Adjustment to other comprehensive income	Changes in other equity						
I. Joint ventures												
1. MHPS Dongfang Boiler Co., Ltd.	176,485,965.55			11,359,154.85	-255,349.16	4,410,351.80					183,179,419.44	
2. AREVA Dongfang Reactor Coolant Pumps Co., Ltd.	230,762,552.59			49,515,651.03							280,278,203.62	
II. Associated companies												
1. Mitsubishi Heavy Industries Dongfang Gas Turbine (Guangzhou) Co., Ltd.	469,965,845.43			171,343,455.51		11,634,957.31			-39,569,204.37		590,105,139.26	
2. Leshan Dongyue Heavy Piece Hoisting Co. Ltd.	25,263,601.38			761,953.60							26,025,554.98	
3. Sichuan Nengrou Wind Power Development Co., Ltd.	111,004,468.10	126,000,000.00		11,439,472.05		6,000,000.00					242,443,940.15	
4. Huadian Longkou Wind Power Co., Ltd.	24,514,859.54	18,750,000.00		3,317,003.81							46,581,863.35	
5. Inner Mongolia Energy Power Hongjijing Wind Power Co., Ltd.	16,000,000.00			-165,848.47							15,834,151.53	
6. Zhongdian Unite Heavy Gas Turbine Technology Co., Ltd.	12,016,431.25			-541,296.56							11,475,134.69	
7. Inner Mongolia Mengneng Saushengtai Wind Power Co., Ltd.		16,000,000.00									16,000,000.00	
8. Inner Mongolia Wu'an New Energy Co., Ltd.		36,000,000.00		-677,744.79							35,322,255.21	
Total	1,066,013,723.84	196,750,000.00		246,351,801.03	-255,349.16	22,045,309.11			-39,569,204.37		1,447,245,662.23	

10. NET CURRENT ASSETS

Unit: RMB

Item	Closing balance	Opening balance
Current assets	72,637,075,446.01	72,953,195,163.01
Less: current liabilities	59,289,960,317.56	59,483,441,627.03
Net current assets	<u>13,347,115,128.45</u>	<u>14,469,753,568.98</u>

11. TOTAL ASSETS LESS CURRENT LIABILITIES

Item	Closing balance	Opening balance
Total assets	84,702,600,301.42	86,134,423,264.67
Less: current liabilities	59,289,960,317.56	59,483,441,627.03
Total assets less current liabilities	<u>25,412,639,983.86</u>	<u>26,650,981,637.64</u>

12. DIVIDENDS

The Board proposes not to distribute any dividend or profit for the year 2016.

II. MANAGEMENT DISCUSSION AND ANALYSIS

1. Review on the Overall Operation During the Reporting Period

2016 is the starting year of the “13th Five-Year Plan” period. Faced with the internal and external grim situation, the Company proactively implements overall working strategies of “seeking progress amidst difficulties, pursuing innovation and change, undergoing transformation and upgrade, delivering enhancement and optimization”. The Company was committed to vigorously develop both domestic and international markets, capturing the three prominent positions in “technology, market and services”. United thoughts has boosted the confidence among the Group. Owing to concerted efforts of its officers and staff, the Group produced power generation equipment with a total capacity of 29 GW throughout the year, with production operation generally under control and within the target range.

Nevertheless, affected by a decrease in demand in the power generation equipment industry, there was a decline in operating revenue in this year as compared with last year; a decrease of 4.80 percentage points was recorded in gross profit margin of principal operations of the Company as compared with last year due to lower product prices. Further loss was incurred owing to the wind power contracts entered previously. The increase in provision for termination benefits as compared with last year resulted from the deepening internal reform and the implementation of streamlining plans. These caused the Company suffering a substantial loss during the Reporting Period.

Capacity of power generation equipment maintaining a high level

In 2016, the Company produced power generation equipment with total capacity of 2,900.61MW, representing a growth of 3% as compared with the power generation equipment completed in last year. The equipment included 9 hydro-electric turbine generating units (77.05MW); 72 steam turbine generators (2,697.6MW) (including nuclear power generators and gas turbine generators); and 603 wind turbine generator sets (125.96MW); 45 power station boilers (2,108.9MW); and 98 power station steam turbines (2,819.36MW) (including gas turbines).

Steady overall market orders

Against the grim market situation, the Group worked hard to overcome obstacles and obtained newly effective orders amounted to RMB36.6 billion, including export orders amounted to RMB3.7 billion. Among the new orders, 61% was attributable to high-efficiency clean energy, 12% to new energy, 5% to hydropower and environmental protection, and 22% to engineering and services. As at the end of 2016, the Company had orders in hand amounting to RMB100.7 billion, among which high-efficiency clean energy accounted for 56%, new energy 17%, hydropower and environmental protection 9%, engineering and services 18%. Export orders accounted for 18.8% of all of the orders in hand.

Steady improvement in domestic market orders. The Company had a generally stable market share of thermal power, with market share of over 30% in large and medium-sized thermal power markets. In respect of the nuclear power market, DEC has maintained its leading position in domestic market. The Company signed a supply contract for CFR600 demonstration fast-reactor steam-turbine generating units, and won the bid for supplying reactor pressure vessels and steam generators for No.1 generating unit of SNPTC Lianjiang Nuclear Power Project (Phase I) and the bid for the demonstration project for technical design and testing and verification of fast-reactor steam generators. It also prevailed in its bid for supplying generating units to Huaneng (華能) Dongguan F4 Project, maintaining a 25% market share. In respect of hydropower, the Company succeeded in its bid for providing four 180MW Francis Turbines for Karot Hydropower Station in Pakistan. In respect of wind power, the Company obtained a batch of important orders, including providing 200MW wind turbines for the Huanglianguan Project for China Power Construction Corporation (中電建). The Company has also started entering into offshore wind power sector, by signing an offshore wind power project to supply 5MW generating units to Xinghua Bay in Fujian. In respect of power plant services, the Company won the bid for the Qiandong Project of 600MW Steam Turbine Through-flow Renovation with State Power Investment Corporation (國電投), and entered into an agreement for the Huaneng Linhe Demonstration Project of Parameter Modification and Flexibility Renovation for 300MW Turbines.

Progress in exploring international markets. The Company entered into the 2×100MW thermal power Kalteng project in Indonesia and the 2×56MW hydropower Jatigede project in Indonesia. Furthermore, new breakthroughs were achieved in the general contracting of wind power plants. The Company entered the markets of Latin America and Russia by signing a 50MW wind power Herradura project (Phase II) in Cuba and a 14×2.5MW wind power Ulyanovsk project in Russia.

Smooth progress in product manufacturing and overseas engineering projects

The Company performed its product contracts in a way that generally met users demand. During the year, a total of 74 thermal power generating units passed 168 hours of trial run, and the warranty period expired for 1,138 generating units in 34 wind power projects. Operation has formally started for the 22 units of 75-MW tubular generator with the largest unit capacity in the world at Gerry Power Plant in Brazil. Commercial operation also successively started for No.6 thermal power generating units in Venezuelan Central Power Plant, Fuqing No.3 (福清3號) nuclear power generating units, and two thermal power generating units in Dongguan.

Overseas engineering projects proceeded in an orderly manner. The Company has obtained the final acceptance certificate for its generating units in the Vietnam maritime defense project (Phase II). Stanari Power Plant in Bosnia obtained its preliminary acceptance certificate 45 days ahead of schedule. This is the first project that has completed construction and commenced operation under the China-CEECs 16+1 Cooperation Framework. As for Bracken Wind Power Project (Phase IV) in Sweden, all 14 generating units have passed 266 hours of trial run and attained the preliminary qualification for transfer.

Impressive achievements in research, development and innovation of major products

The Company has completed the review of its demonstration project of Million-KW 630 °C double reheat in Yuncheng. The project represents the highest civil thermal-power technology under the “13th Five-Year Plan”. The Company has also attained an internationally advanced level in its actual heat consumption of steam turbines, following the through-flow new technology transformation of the 600MW subcritical steam turbines of Togtoh Power Plant and the 600MW supercritical steam turbines of Changshu Power Plant. Furthermore, the Company has completed the development and model test for its 350MW air-cooled steam turbine generators, with all the technical indicators meeting the research and development targets. The Company has completed the development of its third generation nuclear power Hualong No.1 steam generator, and made progress in the development of Hualong No.1 and the steam turbine and power generator for CAP1400 civil nuclear island equipment as scheduled. The Company has conducted performance tests for the compressors of its 50MW thermal generating units. Besides, the Company also succeeded in the design optimization and site renovation for its offshore 5MW wind power generating units. The Company’s self-developed electrical control system for 2MW wind power generating units has been applied in batches, which has yielded good effect.

Proceeding with law-based corporate governance and stringent management in a solid and orderly fashion

The effect has started to emerge from the efforts of reducing cost and expenditure. During the year, the Company experienced a decrease in both trade receivables and inventory balance. In particular, the effect is significant from the reduction of purchasing cost. A centralized purchase management platform was launched, to process over 80% of purchasing of the Group. The progress of the Group's reform was moving steadily, the trial program for creating "super departments system" took place successfully at the marketing department. In order to further enhance the efficiency, the Company optimized the service management model for its overseas offices, subsidiaries and power plants, in a bid to achieve effective coordination in business. In its continuous corporate streamlining, the Company optimized its organizational structure and business process. In addition, the Company organized its "Long-term Quality Assurance Campaign" (質量萬里行) to put into effect quality-related responsibility, with the Group's overall product quality under control. In addition, the Company strives to enhance its social responsibility management and capital operation.

2. Analysis of Principle Business

I. Key operation indicators during the Reporting Period

During the Reporting Period, in accordance with the China Accounting Standards for Business Enterprises, the Company recorded a total operating revenue of RMB33.286 billion, representing a decrease of 7.59% over the same period of last year; net profit attributable to the shareholders of the Company of RMB-1.784 billion, representing a decrease of 506.38% over the same period of last year; earnings per share of RMB-0.76; and the gross profit margin for principal operations was 11.91%, representing a decrease of 4.80 percentage points compared with last year.

For the year ended 31 December 2016, to the best of the Directors' knowledge, the Company has been complying applicable laws and regulations in business operating activities, including the Company Law of the People's Republic of China and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

(I) *Analysis of Principal Business*

**Analysis of changes in certain items in the income statement
and cash flow statement**

Unit: Yuan Currency: RMB

Item	Amount for the year	Amount for last year	Change (%)
Operating revenue	33,285,723,808.34	36,017,943,700.32	-7.59
Operating cost	29,277,766,070.66	29,959,761,391.90	-2.28
Selling expenses	1,446,957,948.09	964,883,532.33	49.96
Administrative expenses	3,562,680,183.45	3,361,762,730.46	5.98
Finance costs	-641,457,176.95	-477,001,415.20	-34.48
Net cash flows from operating activities	8,965,090,194.05	4,155,867,579.48	115.72
Net cash flows from investing activities	-443,004,675.55	-257,589,010.85	-71.98
Net cash flows from financing activities	-1,373,686,177.28	-706,185,646.29	-94.52
Research and development expenses	1,285,959,003.86	1,252,235,199.43	2.69

1. Analysis of revenue and cost

(1) Principal operations by industry, product and region

Unit: Yuan Currency: RMB

Product	Operating revenue	Operating costs	Gross profit margin (%)	Year-on-year increase/decrease in operating revenue (%)	Year-on-year increase/decrease in operating costs (%)	Year-on-year increase/decrease in gross profit margin (percentage point)
Principal operations by industry						
Power generation equipment industry	33,108,359,821.73	29,164,503,964.42	11.91	-7.44	-2.11	-4.80
Principal operations by product						
Clean high efficiency power generation equipment	19,674,428,536.27	16,557,435,538.20	15.84	-14.58	-14.29	-0.28
New energy	7,936,769,747.08	7,179,233,035.00	9.54	73.09	79.12	-3.05
Hydropower and environmental equipment	1,604,246,497.40	1,672,691,854.29	-4.27	-38.99	-17.84	-26.84
Engineering and services	3,892,915,040.98	3,755,143,536.93	3.54	-29.51	-15.24	-16.24
Principal operations by region						
Domestic	29,449,564,340.62	25,390,466,044.78	13.78	-4.63	-0.52	-3.56
Overseas	3,658,795,481.11	3,774,037,919.64	-3.15	-25.20	-11.62	-15.85

- (1) Under the effect of macro-economy, the Company recorded decline in revenue of all segments, save for the slight growth of new energy segment. The revenue of principal operations in this year decreased year-on-year by 7.44%.

- (2) The operating revenue from clean high-efficiency power generation equipment during the year decreased by 14.58% as compared with the same period of last year, which was mainly attributable to downsizing of sales of thermal power, gas turbine and nuclear power conventional island products. The gross profit margin of clean high-efficiency power generation equipment decreased slightly in the year, due to the effect of product price.
- (3) The revenue from new energy products during the year increased by 73.09% as compared with the same period of last year, mainly due to the increase of 114.83 % in revenue of the wind power products. The gross profit margin of the new energy recorded a year-on-year decrease of 3.05 percentage points, which was primarily resulted from the higher proportion of wind power products which has lower profitability over the new energy products.
- (4) The revenue from hydropower and environmental equipment decreased by 38.99% as compared with the same period of last year, mainly due to the decrease of 50.56% and 25.96% in sales revenue of hydropower projects and environmental equipment respectively. The gross profit margins of this segment dropped by 26.84 percentage points, which was mainly caused by the loss recorded in some hydropower projects.
- (5) Revenue from construction and services for the year decreased by 29.51% as compared with the same period of last year, mainly due to the year-on-year decrease of 44.17% and 10.30% in income from engineering projects and power station services respectively. The gross profit margins of engineering and services projects recorded a year-on-year decrease of 16.24 percentage points due to the lower gross profit margin of some engineering projects.

(2) Analysis on Production and Sales

Main products	Production	Sales	Inventory	Increase/ decrease in production compared to the last year (%)	Increase/ decrease in sales compared to the last year (%)	Increase/ decrease in inventory compared to the last year (%)
Production of power generation equipment	29,000.61MW	RMB33.286 billion	Book balance: RMB22.941 billion Book value: RMB19.871 billion	3%	-7.59%	-21.97% -26.13%

(3) Cost analysis

Unit: Yuan Currency: RMB

Industry	Cost composition	By industry					Remark
		Amount for the year	As a percentage in total costs for the year (%)	Amount for the last year	As a percentage in total costs for last year (%)	Year-on-year increase/decrease (%)	
Power generation equipment manufacturing and services	Raw materials and purchased parts	23,305,451,013.34	79.91	23,425,851,299.72	78.63	-0.51	
Power generation equipment manufacturing and services	Direct labor costs	1,265,166,706.49	4.34	1,679,340,924.73	5.64	-24.66	
Power generation equipment manufacturing and services	Manufacturing costs	4,593,886,244.59	15.75	4,687,914,569.41	15.73	-2.01	
Power generation equipment manufacturing and services	Total	29,164,503,964.42	100.00	29,793,106,793.86	100.00	-2.11	

(4) Major customers in sales

During the Reporting Period, the Company's sales from its top five customers amounted to RMB4,229 million, accounting for 12.71% of the total sales for the year, among which, sales to connected parties was nil, representing 0% of the total sales for the year.

(5) Major suppliers

During the Reporting Period, the Company's procurement from its top five suppliers amounted to RMB2,538 million, accounting for 10.99% of the total procurement for the year, among which, the procurement from connected parties was RMB13,020 million, representing 5.64% of the total procurement for the Year.

2. Expenses

Unit: RMB

Item	Amount for the year	Amount for last year	Change (%)
Selling expenses	1,446,957,948.09	964,883,532.33	49.96
Administrative expenses	3,562,680,183.45	3,361,762,730.46	5.98
Finance costs	-641,457,176.95	-477,001,415.20	-34.48
Income tax expenses	-184,625,607.38	73,401,825.32	-351.53

3. Analysis of Major Controlling Subsidiaries and Investees

Unit: RMB100 million

Company name	Equity interest	Main products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
DEC Dongfang Steam Turbine Co., Ltd.	100%	Production, processing and sales of steam turbines, water turbine, gas turbines, compressors, fans, pumps and auxiliary equipment, wind turbine generator units, solar and renewable energy; industrial control and automation; the research, design installation, alteration and maintenance services of the power stations and the corresponding equipment; mechanical equipment and accessories as well as the related import and export business	18.46	293.51	15.98	128.04	-21.25	-21.97
DEC Dongfang Electric Machinery Co., Ltd.	100%	Design, manufacturing and sales of complete sets of power generation equipment, steam turbine generators, AC and DC motors; the design, manufacturing and sales of control equipment; the transformation of power stations, the installation of power station equipment	20.00	142.03	35.70	50.47	-6.62	-5.83
DEC Dongfang Boiler Group Co., Ltd.	99.67%	Development, design, manufacturing, and sales of power station boilers, power station auxiliary equipment, industrial boilers, power station valves, petrochemical vessels, nuclear reaction equipment and environmental equipment, (desulfurisation, denitrification, wastewater and solid waste treatment etc.)	16.06	233.45	52.32	112.99	0.38	0.64
Dongfang Electric (Guangzhou) Heavy Duty Machinery Co., Ltd.	65.1813%	Business prohibited by national laws and regulations shall not be operated; business which is subject to special approval shall be operated upon approval; other business can be independently organized and operated	11.51	36.21	16.56	10.54	0.53	0.62
Dongfang Electric Wind Power Co., Ltd.	100.00%	Design, production, sales and service of wind turbine generator units and introduction, development and application of associated technology; construction and operation of wind farms, manufacturing and sales of components and parts of wind turbine generator units; technical service and technical consultation related to manufacturing of fans as well as construction and operation of wind farms; and import and export of wind turbine generator units, components and parts and associated technologies.	7.50	77.13	0.74	38.25	-4.40	-4.35

(II) *Financial Position and Operating Results of the Company during the Reporting Period*

1. *Analysis of operating results*

Unit: RMB

Item	Amount for the year	Amount for last year	Year- on-year increase/ decrease (%)
Operating revenue	33,285,723,808.34	36,017,943,700.32	-7.59
Selling expenses	1,446,957,948.09	964,883,532.33	49.96
Administrative expenses	3,562,680,183.45	3,361,762,730.46	5.98
Finance costs	-641,457,176.95	-477,001,415.20	-34.48
Impairment loss of assets	1,497,637,534.28	1,665,374,908.04	-10.07
Operating profit	-1,995,933,133.63	383,982,344.61	-619.80
Total profit	-1,944,064,007.65	532,899,436.82	-464.81
Income tax expenses	-184,625,607.38	73,401,825.32	-351.53
Net profit	-1,759,438,400.27	459,497,611.50	-482.90
Net profit attributable to shareholders of the Parent Company	-1,784,306,804.76	439,072,644.82	-506.38

- (1) The operating revenue of the Company decreased year-on-year by 7.59% under the effect of macro-economic environment.
- (2) The selling expenses of the Company increased year-on-year by 49.96%, which was mainly due to the adjustment made to the amount of estimated liabilities for the sold projects of which warranty period has not expired after the reassessment on the book value of the estimated liabilities at the end of the year.
- (3) The administrative expenses of the Company increased year-on-year by 5.98% mainly due to the increase in provision for the termination benefits resulted by more efforts put into the implementation of “streamlining plans”.

- (4) The finance costs of the Company decreased year-on-year by 34.48%, mainly due to increase of interest income for continuous optimization of deposit structure and increase of exchange gain under the effect of change in exchange rate.
- (5) The operating profit of the Company decreased year-on-year by 619.80%, total profit decreased year-on-year by 464.81%, and net profit decreased year-on-year by 482.90%, which were mainly attributable to the following reasons: slowdown of macro-economic growth, the demand in the power generation equipment market decreased and product price and sale also dropped, causing a decrease of operating revenue and reduction of gross profit margin in this year.

2. Analysis of assets, liabilities and shareholders' equity

At the end of the year, the Company's total assets amounted to RMB84.703 billion. The assets scale decreased slightly, among which, sharp decreases were recorded in inventory and accounts receivable, with decreases of 26.13% and 7.73% respectively. Meanwhile, total liabilities amounted to RMB62.617 billion, up by 0.74% as compared with the beginning of the year, mainly attributable to the increase of 13.28% in notes payable. Shareholders' equity amounted to RMB22.086 billion in total, down by 7.89% as compared with the beginning of the year, mainly attributable to the operating loss in the year.

3. Gearing ratio

Item	As at the end of 2016	As at the end of 2015	Year-on- year increase/ decrease (percentage point)
Gearing ratio (%)	73.93	72.16	1.77

Gearing ratio of the Company was 73.93% at the end of the year, representing an increase of 1.77 percentage points as compared with the beginning of the year. The risk from assets structure of the Company is in a controllable state.

4. *Bank borrowings*

As at 31 December 2016, the Company had borrowings from financial institutions (banks) of RMB785 million due within one year and had bank borrowings of RMB500 million due beyond one year. The Company's borrowings and cash and cash equivalents are mainly dominated in RMB. In particular, RMB1,285 million were fixed-rate loans. The Company has maintained a favorable credit rating with banks and a sound financing capacity.

5. *Exchange risk management*

With the increasing scale of the international operations of the Company, foreign exchange rate risk has become an increasing important factor that affects the Company's operating results. With a view to effectively reducing the impact of fluctuations in foreign currency exchange rates on the Company's financial position and operating results, the Company prudently adopts exchange rate hedging instruments including forward exchange settlement for hedging purpose to limit the risks arising from exchange rate fluctuations.

6 *Pledge of assets*

At the end of the year, the Company had a guaranteed loan of RMB22.5 million, which was borrowed by a subsidiary from a financial institution with the purpose of settlement of payment to Shanghai Oujikete Slewing Bearing Co., Ltd of which the joint and several liability of guarantee is provided by Shanghai Oujikete Slewing Bearing Co., Ltd and Shanghai Oujikete Slewing Bearing Co., Ltd would bear the relevant interest incurred on the borrowings. As at the end of the year, the Company had pledged borrowings of RMB142 million, which were related to borrowings from financial institutions secured by machinery, equipment, properties and land use rights. As at the end of the year, this part of borrowings was not mature and repayable.

(III) Main Sources and Uses of Funds

1 Cash flows from operating activities

During the year, the Company's cash inflows from operating activities amounted to RMB38,491 million, mainly attributable to cash received from goods sold by the Company; cash outflows from operating activities amounted to RMB23,089 million, mainly attributable to payment for procurement of raw materials; net cash flows from operating activities amounted to RMB8,965 million. The net cash flows from operating activities increased by 115.72% year-on-year.

2 Cash flows from investing activities

During the year, the Company's cash inflows from investing activities amounted to RMB32 million, mainly attributable to the retrieval of portion of investments in Zhongke Securities and receipt of dividend from joint ventures; cash outflows from investing activities amounted to RMB475 million, mainly attributable to investment expenditures for purchase and construction of fixed assets and investment in joint ventures by the Company; net cash flows from investing activities amounted to RMB-443 million. The net cash outflows from investing activities increased by 71.98% as compared with the same period last year.

3 Cash flows from financing activities

During the year, the Company's cash inflows from financing activities amounted to RMB824 million, representing a decrease of 72.92% as compared with that of last year, mainly attributable to the decrease of borrowings of the Company; cash outflows from financing activities amounted to RMB2,198 million, mainly attributable to the repayment of borrowings due and the payment for interest accrued thereon by the Company, as well as the distribution of 2015 cash dividends of RMB140 million to the shareholders of the Company; net cash outflows from financing activities amounted to RMB1,374 million, which is mainly due to the decrease in the amount of borrowings.

III. Discussion and Analysis on Future Development

(I) Competition pattern and development trend of the industry

1. Macro-economic environment

In terms of the macro situation, the global economy is still in the stage of deep consolidation, during which it shows the features such as slowing growth, over-capacity and increasing uncertainties. As the developed countries attach more importance on the manufacturing of high-end products, the layout of global manufacturing industry is significantly affected by the new production technological revolution which is dominated by informed, intelligent and networking technologies. Domestically, Central Economic Work Conference stated that “supply-side structural reforms” will be further deepened in the year of 2017 and the basic tone of work will be seeking progress while maintaining stability. It also stressed that product quality should be improved by focusing on deepening the supply-side structural reforms.

2. Development trend of the industry

According to the objectives set out in the “Energy Sector Development in the 13th Five-Year Plan” (《電力發展“十三五”規劃》), the installed capacity of the coal-fired power should be maintained at not more than 1,100 million KW by 2020, indicating that the room for additional thermal power will be limited during the 13th Five-Year Plan period. In respect of the energy distribution, the wind power and PV power will be moved towards the central and eastern regions and will be mainly developed by distribution and locally consumed. Nuclear power will be concentrated in the constructions in the eastern coastal areas, with the estimated installed capacity to reach 58 million KW by 2020.

Pursuant to the Guiding Opinions on Energy Development for 2017 (《2017年能源工作指導意見》) released by the National Energy Administration, the state further declared that thermal power projects should be strictly controlled, and the scale of non-fossil power should be expanded. The targets set for installed capacity of various types of power are: the installed capacity of newly constructed hydropower projects is sought to reach 30 million KW, with additional installed capacity of 10 million KW; the installed capacity of newly constructed wind power projects is sought to reach 25 million KW, with additional installed capacity

of 20 million KW, through steadily promoting the progress of preparatory work of wind power projects located at certain regions; the installed capacity of nuclear power is sought to increase by 6.41 million KW by vigorously accelerating the approval procedures of construction of qualified projects. The installed capacity of newly constructed solar power projects is sought to reach 20 million KW, with additional installed capacity of 18 million KW by orderly promoting the progress of preparatory work of the projects located at certain regions. The ultra-low emission transformation planned to be completed in a scale of 80 million KW and the energy-saving transformation planned to be completed in a scale of 60 million KW during the year by pushing forward the transformation in the field of coal-fired power. Overall, great development opportunities will be brought to the wind power, solar power and nuclear power segments and the growth potential exists in the areas of energy-saving and emissions reduction in coal-fired power, pumped-storage hydroelectricity and biomass power.

3. *Competition pattern of the industry*

From the perspective of competition in the industry, with the significant decline in the growth of demand for power generation during the “13th Five-Year Plan” period, the installed capacity of power generation grew at a lower rate and new characteristics of competition has emerged in the power generation equipment industry in the PRC, such as large decrease in demand in thermal power and other fossil energy markets, more intensive market competition due to the decrease in development amount of hydro power resource, which resulted in the continued decline in the price of power generation equipment. On the other hand, during the “13th Five-Year Plan” period, energy structure will be adjusted and new energy development will be speed up, creating new opportunities for development of nuclear power, wind power and solar power. New requirements will be proposed by the state in respect of economy, reliability, energy conservation and environmental-friendliness of generator units, bringing room for new market growth in reformation on energy conservation and emissions reduction, technical innovation for parameters upgrade, and power plant maintenance and operation. Under the new circumstance, the demand for power generation equipment will grow slowly and competition in domestic power market will become more intensive in the “13th Five-Year Plan” period. It has become essential for the development of power generation equipment enterprises to increase competitiveness and expand market share with technology, quality, service and cost control.

In respect of international market, the implementation of “One Belt One Road” and international capacity cooperation will bring new development opportunities. However, new challenges will arise from market channels response, risk prevention, cost control and resource deployment in the international market and other international operation requirements.

(II) Development strategy of the Company

The Company’s vision: To be “China’s GE” and a prime supplier of the power technology, equipment and service around the world.

Strategic positioning: A world-class supplier of major technology, equipment and service with international competitiveness.

The development strategies of the Company during the “13th Five-Year Plan” period include: taking proactive initiatives in adapting to “New Normality”; adhering to the development principle of “innovation, coordination, greenness, openness and sharing”; implementing the strategic tasks relating to “One Belt One Road”, manufacturing powerhouse and deepening reform stipulated by the state; capturing the advantages in “technology, market and service” and stimulating development vitality with innovation by focusing on the “structural adjustment, transformation and upgrade”; consolidating the favorable resources to strengthen the organic growth driver; cultivating the core capability and enhancing the management and control; emphasizing the enhancement and optimization to improve the development quality and efficiency. All of these efforts are made to realize the sustainable development of DEC and position it as a world-class supplier of major technology, equipment and service with international competitiveness.

(III) Business plan of the Company

2017 is an essential year for the Company to rise above difficulties and achieve rejuvenation with deep reform. By promotion of the “Tier-three spirit” and “DEC culture”, the Company will endeavor to realize the objective of “rising above difficulties and achieving rejuvenation” and “second venture”. Driven by the deepening reform, the Company will dedicate its resources into “science innovation, quality improvement, cost control, further reform and management enhancement”, while insisting on emancipating minds, transforming values and refining the organizational behavior. In order to accomplish the comprehensive plan of 2017 and reform and development tasks in each stage, the Company will be committed to seizing every opportunity to vigorously expand market based on the goal-oriented discipline.

In 2017, following the guidance of “de-capacity, de-stock, cost saving, and restructuring”, the Company will seek to rise above difficulties and achieve rejuvenation by putting more efforts into the transformation and upgrading. The Company has planned to achieve the annual output of power generation equipment of 28 million KW and maintain stable operating revenue. The Company also expects to secure a steady and sustainable development through further reducing cost and improving efficiency, enhancing the profitability and turning loss into profit. For this purpose, the Company intends to adopt the following measures:

1. *Expansion of domestic and overseas markets with best and concerted efforts*

Domestic market share shall be expanded and consolidated. For the thermal power, market share of one third in the large and medium-sized thermal power markets shall be attained through vigorously promoting the demonstration projects with innovative technology which cater to the demand of users on the high-efficiency, cleanness and flexibility, while proactively following up the projects such as civil thermal power, delivering power source station and self-developed power plants. For the hydropower, the competitive strength of DEC shall be maintained in the large-sized hydropower generators and pumped-storage hydropower generator unit market, and leading position in the tubular-turbine generation unit market shall be further enhanced, in a bid to strive for 40% of market share. For the nuclear power, the Company shall maintain 45% of market share for the core products including civil nuclear island equipment, and maintain 35% of market share for products such as nuclear island reactor pressure vessels, steam generators and main nuclear pump. For the thermal power generators, the Company shall maintain 25% of market share by accelerating the introduction and absorption of technology applied in F5 and model J heavy-duty thermal power generators due to the market competition. For the wind power, the market share will be expanded by using various methods to improve the reliability and economic performance of prevailing products in market. For the power station service, the Company will use best endeavors to capture the market share of service segments such as parameter upgrade, capacity enhancement, power saving, efficiency improvement and product life extending through the coordination of resources. In addition, the Company will keep a close eye on the thermal power flexibility renovation market in the PRC, while strengthening the service capability covering entire life cycle such as examination, inspection and repair, operation and maintenance, with an aim to grow at a faster pace.

More efforts shall be dedicated to further develop the international market. The integration of overseas resources shall be accelerated to build the unified overseas operation platform so as to cultivate our core competitiveness. The Company will strengthen its business layout in overseas market. Riding on “One Belt One Road” initiative, we will further explore such traditional markets as India, Indonesia, Pakistan and Vietnam, vigorously expand such potential markets as the Middle East and Central Asia and actively exploit such emerging markets as Eastern Europe and Africa. The functions of overseas administrative offices will be utilized in expanding our coverage in areas without our footprint, so as to establish a more effective overseas marketing channel. The international industrial expansion will be vigorously promoted, with expansion into the upstream and downstream of industrial chain, extension to the upstream of value chain, in an effort to create the full life cycle service ability of the power plant. New business model will be established based on the overseas complete sets of equipment and power plant EPC, so as to develop the integrated projects covering the post-service, early-phase feasibility study, exploration and investment, construction and operation of overseas power plants. The progress of structural adjustment will be accelerated. More efforts will be put into the promotion of products with high thermal power parameters, high efficiency and low emission and such new energy products as large-sized efficient hydropower, wind power and solar power and related project development in the overseas markets, with the purpose of increasing the overseas market share of hydropower and new energy products.

2. *Exploring Potential and laying down a solid foundation for development by improving quality and efficiency*

Firstly, more efforts will be devoted to the collection of receivables so as to realize decrease of outstanding receivables at the end of 2017 as compared with that at the beginning of the year. Secondly, the utilization efficiency of inventory will be improved and the disposal of abnormal inventory will be intensified with the purpose of achieving decrease at remaining inventory at the end of 2017 as compared with that of the beginning of the year. Thirdly, the Company will carry out cost-driven program to steadily push forward target cost management and strictly control the unproductive expenditure, so as to attain higher gross profit margin in principle business in 2017 as compared with last year. Fourthly, the procurement will be centralized in compliance with the requirements of “centralized management, centralized bidding, centralized procurement and benefits preferred”, so that the procurement concentration rate shall reach over 90%.

3. *Driving the research and development and industrialization process of main products by innovation*

The Company will attach great importance on the implementation of “Climbing Plan” and major science and technology projects. The “Climbing Plan” and major science and technology projects will be vigorously promoted with the focus on principle business, so as to achieve breakthroughs in core technology of key products, optimize performance and enhance the product competitiveness. In respect of thermal power, critical breakthroughs will be recorded in performance improvement for 660MW and 1,000MW ultra-supercritical steam turbine, research and development of 660MW ultra-supercritical CFB boiler, promotion of the research, development and demonstrative application of key technology of ultra-high parameter secondary reheat unit. In terms of nuclear power, the independent development of the third generation of main equipment shall be speeded up, while positive efforts will be put into the research and development of the fourth generation. Great importance shall be attached to the development of main equipment for such CAP1400 major and special pilot projects as Shidao Bay project, Hualong No.1, Fuqing No. 5 and 6 and CFR600 demonstration fast breeder reactor. As to hydropower, priority will be given to the development of Baihetan 1,000MW mega hydropower generating units, Jixi and Dunhua pumped-storage mechanism; and the preliminary research of impulse mega turbine and the relevant testing should be pushed forward. With respect to wind power, great efforts should be devoted to promoting the research, development and application of such core technology as independent electrical control and blades to achieve upgrading and updating of products. In regard to gas turbine, the independently developed project of 50MW gas turbine should be accelerated. For new technological industrialization, the progress of technological research and application for digital power plant will be in a faster pace through the development of health and intelligence management and demonstration project for thermal power units.

4. *Deepening Reform and Stimulating Development Vitality*

In order to reduce the burdens on business operation, streamlining plans will be implemented on five dimensions covering “segment, organization, position, leader and employee”. By adhering to the principles of “retreat from low-efficient business, optimization of structure and streamlining”, the Company will retreat from the segments with low-efficient capacity and non-core business to streamline and optimize the organizational structure. In addition, the Company will strictly comply with the “three rules”, with control on the total number of staff and adjustments to the personnel structure.

Targeted measures and policies will be adopted to cultivate talents, retain talents, make good use of talents, stimulate vitality and form the innovation-driven and talents-led pattern. The Company will be committed to satisfying the demands of key talents required by operation according to the strategic development focus. The career development channel of technical experts, senior management and operation talents will be refined through improvement of assessment and management methods of various specialists. The Company will also strive to cultivate the leading talents in the industry by implementing key projects and major scientific research projects.

5. *Preventing the operational risk effectively by stringent management and control*

The management and control on project risk should be reinforced. The potential contract performance risk shall be prevented by strengthening the communication with users, conducting in-depth on-site investigation on projects, following up the on-site situation of projects timely, assessing the project progress and revising the project execution plan, as well as adjusting the progress of design, purchasing, manufacturing and shipping in due course. The Company will also reinforce the analysis and study of national policy, domestic and overseas economic situations and conduct periodic analysis on economic development, so as to find solutions as soon as possible and avoid business risks. Measures will be taken to prevent legal risk. General legal consultant system will be launched at principle subsidiaries, the main responsibilities of subsidiaries in legal work will be identified and the accountability system for illegal operation will be established.

6. *Improving the sustainable development ability of the Group through acquisition of assets from its controlling shareholder*

Through implementing the transaction of acquisition of assets from its controlling shareholder, the Company will expand its business scope in power electronics and control, finance, logistic, trading business, new energy, and industrial intelligence equipment, and will thus improve the Company's industry chain as well as the quality and efficiency of the core power generation equipment. The Company, by conducting such transaction, will strongly enhance the integration of industry and financial sector, and international management and operation, and improve the development profitability and risk-resistance capability, and enhance the Group's overall competitiveness. The proposed injected assets will help to significantly enhance the independent innovation ability of the Company's core and emerging technology and realize the innovation-driven growth. Besides, the commercialization of relevant scientific innovation results can be accelerated by utilization of the platform of a listed company. While maintaining the leading position in the industry, the Company will vigorously expand into the fresh business by proactively implementing the development strategy of dual drivers, namely "traditional core segments + emerging segments", in a bid to foster new profit growth point and improve the sustainable development ability of the Company.

(IV) Possible Risks

1. *Market Orders Risk*

In 2017, the Chinese economy is still under downturn pressure. Reform on supply side and power systems reform will exert relatively great effects on domestic power demand. In particular, the new power generation equipment market faces sharp downturn and uncertainties increase for concluded contracts due to further control to be imposed by the National Energy Administration on the capacity of coal-fired power in order to further promote the orderly development of the coal-fired power. All of these factors bring about great pressure and risks to orders of enterprises.

Aimed at demands in the target market, the Company will strengthen market planning and implement the marketing strategic to be carried out by all the staff members, so as to improve quick and efficient market response mechanism to deal with market changes. Meanwhile, the Company will promote transformation and upgrading to satisfy market demands by fully leveraging the advantages in “technology, market and service”.

2. *Project Execution Risk*

The domestic projects currently in progress of the Company are subject to the impact of slowdown in the construction of the power infrastructure as well as the adjustment and control on coal-fired power, and thus may bring about some project execution risk. In respect of overseas projects, the project execution risk is generated from factors such as the politics, economy, safety, policies and project schedules, quality and exchange rate in the country where such overseas projects are located.

By promoting the establishment of internal control system, the Company enhanced investigation and examination of project contracts, while accelerating the progress of implementation of the proposal of resources integration for overseas market. In so doing, a uniform platform is formed to achieve the synergic effect, thereby facilitating the expansion of international market and enhancing the capability of preventing project risk.

3. *Risk of Recovering Receivables*

Since the progress of construction of some power stations is slowing down, the Company is facing the risk arising from the increasing account receivables and more difficulties in recovery of such payments. As a result, the cash flow generated from operating activities such as the recovery of receivables decreased.

In order to ensure the normal operation of the Company’s capital chain to satisfy the capital demand for production and operation, the Company will strengthen fund management to prevent fund risk, and make more efforts on recovering the account receivables.

III. OTHER EVENTS

1. Purchase, Sales or Redemption of Listed Securities of the Company

During the year ended 31 December 2016, the Company did not purchase, sell or redeem any listed securities of the Company.

2. Major Acquisition and Disposal of Subsidiaries and Associates

During the year ended 31 December 2016, neither the Company's subsidiaries nor its associates was purchased or sold.

3. Guarantee and Performance thereof

During the Reporting Period, the Company provided financing guarantees for Inner Mongolia Energy Power Hongnijing Wind Power Co., Ltd., Inner Mongolia Mengneng Sanshengtai Wind Power Co., Ltd. and Inner Mongolia Mengneng Wulan New Energy Co., Ltd. with its 20% equity interests in each of above three companies amounting to RMB68 million. The guarantees shall be valid from the effective date of the equity pledge agreement until all debts under the financial leasing contract being repaid. DEC Dongfang Steam Turbine Co., Ltd., a wholly-owned subsidiary of the Company, provided payment and performance guarantee in an amount of RMB24.5 million for Mitsubishi Heavy Industries Dongfang Gas Turbine (Guangzhou) Co., Ltd..

At the end of the Reporting Period, the aggregate guarantee of the Company amounted to RMB92.5 million, representing 0.41% of the net assets of the Company.

4. Material Litigation and Arbitration

During the period, the Company was not involved in any material litigation or arbitration.

5. Changes in Accounting Estimates

(1) Changes in accounting estimates and reasons

As the price of wind power products are decreasing due to the development of wind power industry in recent years, in particular, the warranty period has extended from two years to three years even five years, the product warranty provisions calculated at a rate of 3% are inadequate to cover the expenses incurred in the warranty period of wind power projects. According to the Resolution in relation to Changes in Accounting Estimates of the Company which was considered and approved at the 13th meeting of the eighth session of the Board of the Company held on 28 December 2016, the Group's product warranty provisions have been calculated at a rate of 6% instead of 3% of the sales revenue of the complete sets of wind power generators units starting from 1 October 2016.

(2) Effects of the changes in accounting estimates on the amount in the current period

The changes in accounting estimates resulted in an increase of RMB78.0857 million in sales expenses and a decrease of RMB78.0857 million in profit for the period between October and December of 2016.

6. Events after the Balance Sheet Date

1. Acquisition of assets by issuance of shares of the Company

The Company entered into the proposed Assets Transfer Agreement with DEC on 7 March 2017, pursuant to which the Company has conditionally agreed to acquire the Target Assets from DEC at a total consideration of RMB6,909.4047 million (subject to adjustment) which shall be settled by issuance of approximately 766.8596 million Consideration Shares by the Company at the issue price of RMB9.01 per Consideration Share to DEC.

The Target Assets include:

(i) 100% equity interest in DEC Materials, (ii) 100% equity interest in DEC Bulk Logistic, (iii) 100% equity interest in DEC Finance, (iv) 100% equity interest in DEC International Cooperation, (v) 100% equity interest in DEC Automatic Control, (vi) 41.24% equity interest in DEC Hitachi, (vii) 100% equity interest in DEC Clean Energy, (viii) 100% equity interest in DEC Smart Energy, (ix) certain equipment and intangible assets, including 833 equipment (including 407 mechanical equipment, and 426 electronic equipment) and 473 intangible assets (including 63 software, 14 computer software copyrights, and 396 patents).

The abovementioned transactions are subject to approval from the independent shareholders of the Company at the General Meeting and the Class Meetings after approval from the relevant regulatory authorities. For details of such transactions, please refer to the announcement issued by the Company on 9 March 2017.

The trading in A shares of the Company has been suspended from 9 December 2016, and is expected to remain suspended until the SSE has no further comments on the disclosed information of the Company in relation to the proposed Acquisition published on SSE in accordance with the SSE Listing Rules.

2. Profit distribution

Item	Description
Proposed distribution of profits or dividends	No dividends to be distributed for 2016

7. Employees

As at 31 December 2016, the Company had 18,795 employees, who were remunerated based on their individual performance. Remuneration packages are structured with reference to their positions and the Company's results.

8. Code on Corporate Governance Practices

The Company was in full compliance with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the Reporting Period.

9. Model Code for Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by Directors and supervisors of the Company on the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made specific enquiry to all Directors and supervisors of the Company, the Company confirms that, for the year ended 31 December 2016, the Directors and supervisors of the Company had complied with the provisions regarding the securities transactions by Directors and supervisors as set out in the Model Code.

10. Audit Committee

The Board has set up an audit committee comprising three independent non-executive Directors, namely, Mr. Chen Zhangwu, Mr. Gu Dake and Mr. Xu Haihe. The audit committee has reviewed the annual results of the Company for the Period, and agreed to the accounting treatments adopted by the Company.

11. Information Disclosure

This results announcement will be available on the websites of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>). The annual report of the Company for the year ended 31 December 2016, which contains all information as proposed in the Disclosure of Financial Information set out in Appendix 16 to the Listing Rules, will be dispatched to shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited and the Company (<http://dfem.wsfg.hk>) in due course.

By order of the Board
Dongfang Electric Corporation Limited
Chairman
Zou Lei

Chengdu, Sichuan Province, PRC
24 March 2017

As at the date of this announcement, the directors of the Company are as follows:

Directors: *Zou Lei, Zhang Xiaolun, Huang Wei, Zhu Yuanchao and Zhang Jilie*

Independent Non-executive Directors: *Chen Zhangwu, Gu Dake and Xu Haihe*