

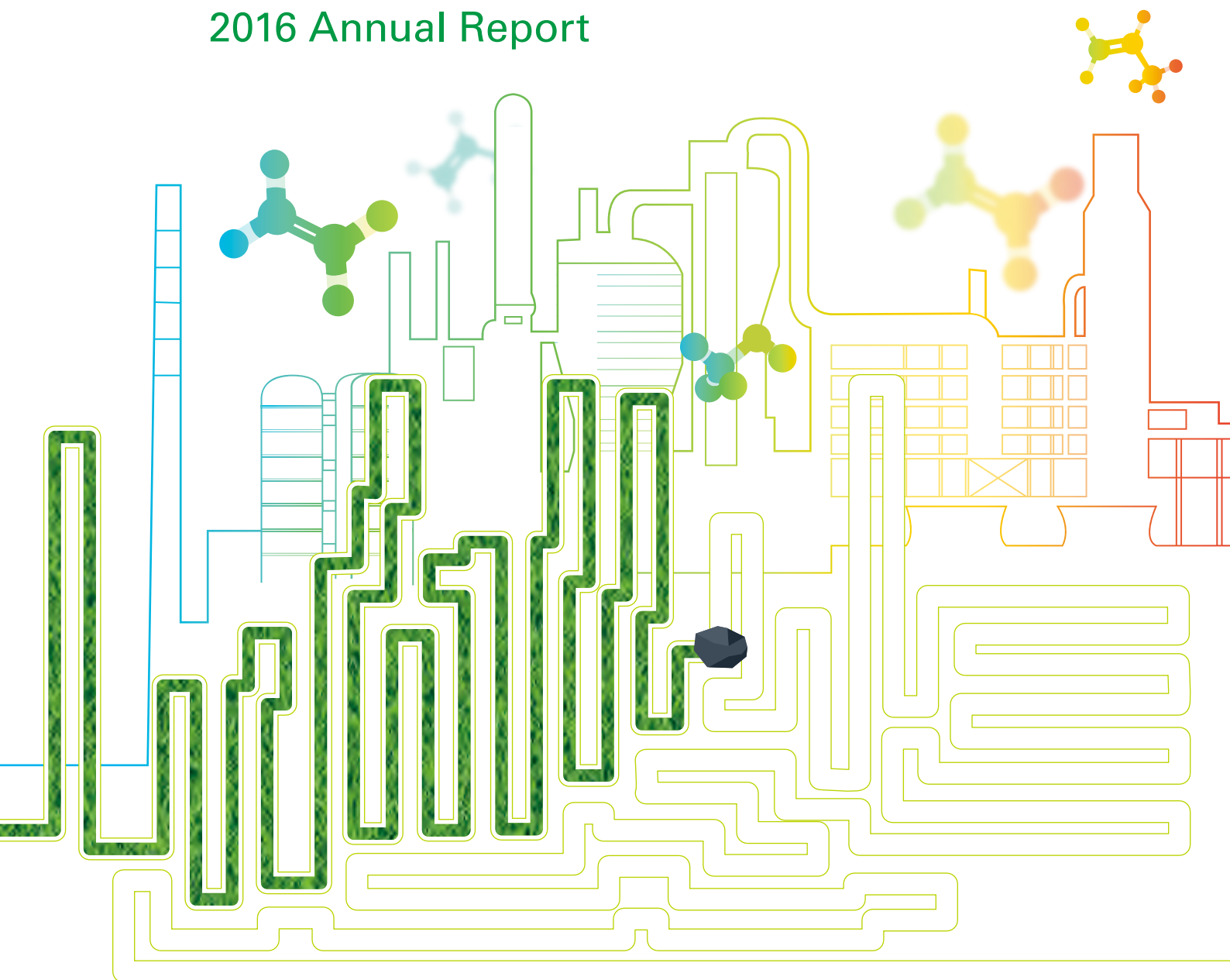


中国神华能源股份有限公司
CHINA SHENHUA ENERGY COMPANY LIMITED

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

Stock Code: 01088

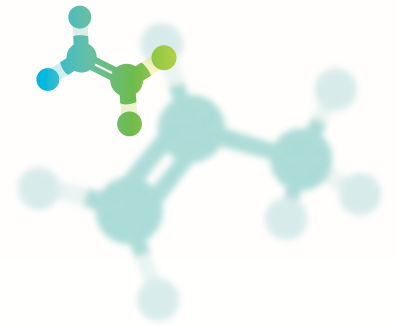
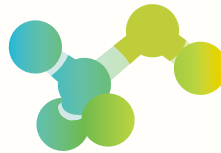
2016 Annual Report



**Promote Eco-Friendly and
Highly-Efficient Utilization of Coal**

Important Notice

- I. The Board, supervisory committee and directors, supervisors and senior management of the Company warrant that this report does not contain any misrepresentations, misleading statements or material omissions, and are jointly and severally liable for the authenticity, accuracy and completeness of the information contained in this report.
- II. This report was approved at the 24th meeting of the third session of the Board of the Company, all the directors of the Company were present at the meeting of the Board.
- III. Deloitte Touche Tohmatsu has issued a standard unqualified independent auditor's report to the Company under the International Financial Report Standards for Certified Public Accountants, in connection with the Company's 2016 financial statements prepared under the Hong Kong Accounting Standards.
- IV. Zhang Yuzhuo, Chairman of the Company, Zhang Kehui, Chief Financial Officer, and Xu Shancheng, General Manager of the Finance Department of the Company, warrant the authenticity, accuracy and completeness of the financial statements contained in this report.
- V. The Board proposed the payment of: (1) a final dividend in cash of RMB0.46 per share (inclusive of tax) or RMB9,149 million for year 2016; (2) a special dividend in cash of RMB2.51 per share or RMB49,923 million based on the total share capital of 19,889,620,455 shares of the Company as at 31 December 2016. The above profit distribution proposal is pending the approval by shareholders at the general meeting.
- VI. Disclaimer of forward-looking statements: There are forward-looking statements in this report made on the basis of subjective assumptions and judgments on future policies and economic conditions, which are subject to risks, uncertainties and assumptions. The actual outcome may differ materially from the forward-looking statements. Such statements do not constitute actual commitments to investors. Investors should be aware undue reliance on or use of such information may lead to risks of investment.
- VII. Is there any situation of non-operating appropriation of funds by controlling shareholder(s) and its subsidiaries? : No
- VIII. Is there any situation of violation of decision-making procedures for external guarantee provision? : No
- IX. Warning on Major Risks: Impacted by the supply and demand of coal and power generation and the implementation of industrial policies, the Group is exposed to some uncertainties on achieving the business targets for 2017. In addition, investors please note that the Company has disclosed risks including market competition, industrial policies, change in cost, environmental protection and safety production, etc. in the section headed "Directors' Report".



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Section I Definitions

Unless the context otherwise requires, the following terms used in this report 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.
Shenbao Energy Company	Shenhua Baorixile Energy Co., Ltd.
Shenhua Zhuhai Coal Dock	Shenhua Yudean Zhuhai Port Coal Dock Co., Ltd.
Overseas Company	China Shenhua Overseas Development & Investment Co., Ltd.
Yu Shen Energy Company	Yulin Shenhua Energy Co., Ltd.
Xinjie Energy Company	Shenhua Xinjie Energy Co., Ltd.
Shenwan Energy Company	Shenwan Energy Company Limited
Fujian Energy Company	Shenhua Fujian Energy Co., Ltd.
Shenhua Finance Company	Shenhua Finance Co., Ltd.
EMM Indonesia	PT.GH EMM INDONESIA

Section I Definitions (Continued)

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.
Jiujiang Power	Shenhua Guohua Jiujiang Power Co., Ltd.
Zhuhai Wind Energy	Zhuhai Guohua Huidafeng Wind Energy Development Co., Ltd.
Huizhou Thermal	Guohua Huizhou Thermal Power Branch of 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.

Section I Definitions (Continued)

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

Section II Company Profile and Major Financial Indicators

I. INFORMATION OF THE COMPANY

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

II. CONTACTS AND CONTACT DETAILS

	Secretary to the Board	Representative of Securities Affairs
Name	Huang Qing	Chen Guangshui
Address	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)
Tel	(8610) 5813 3399	(8610) 5813 3355
Fax	(8610) 5813 1804/1814	(8610) 5813 1804/1814
E-mail	1088@shenhua.cc	ir@shenhua.cc
	Board and Supervisory Committee Affairs and Investor Relations Department of the Company	Hong Kong Office of the Company
Address	22 Andingmen Xibinhe Road, Dongcheng District, Beijing (Postal Code: 100011)	Room B, 60th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong
Tel	(8610) 5813 1088/3399/3355	(852) 2578 1635
Fax	(8610) 5813 1804/1814	(852) 2915 0638

III. PARTICULARS

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

IV. INFORMATION DISCLOSURE AND PLACE FOR DOCUMENT INSPECTION

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

Section II Company Profile and Major Financial Indicators (Continued)

V. BASIC INFORMATION ON SHARES

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

VI. OTHER RELEVANT INFORMATION

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

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

VII. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

	Unit	2016	2015	Change (%)
Revenue	RMB million	183,127	177,069	3.4
Profit for the year	RMB million	31,970	24,959	28.1
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 the effect from Shenhua Finance Company	RMB million	92,564	46,341	99.7

	Unit	As at 31 December 2016	As at 31 December 2015	Change (%)
Total assets	RMB million	576,729	559,791	3.0
Total liabilities	RMB million	191,760	195,870	(2.1)
Total equity	RMB million	384,969	363,921	5.8
Equity attributable to equity holders of the Company	RMB million	316,975	298,068	6.3
Total share capital at the end of the period	RMB million	19,890	19,890	0.0
Equity attributable to equity holders per share	RMB/share	15.94	14.99	6.3

Section II Company Profile and Major Financial Indicators (Continued)

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

Unit: RMB million

	Net profit attributable to equity holders of the Company		Net assets attributable to equity holders of the Company	
	2016	2015	At the end of 2016	At the end of 2015
Under China Accounting Standards for Business Enterprises	22,712	16,144	312,357	292,790
Adjusted items and amount in accordance with International Financial Reporting Standards:				
Adjustment: simple production maintenance, safety production and other related expenditure	2,198	1,505	4,618	5,278
Under International Financial Reporting Standards	24,910	17,649	316,975	298,068

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

IX. MAJOR FINANCIAL DATA OF EACH QUARTER OF 2016

Unit: RMB million

	First quarter (January – March)	Second quarter (April – June)	Third quarter (July – September)	Forth quarter (October – December)
Revenue	39,402	39,321	46,080	58,324
Profit for the period attributable to equity holders of the Company	4,741	6,086	7,821	6,262
Net cash generated from operating activities	15,225	22,982	23,967	19,709

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

Applicable Not applicable

Section III Business Overview

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

China Shenhua Energy Company Limited was established by Shenhua Group Company Limited as the sole promotor in Beijing in November 2004. China Shenhua was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June 2005 and October 2007, respectively.

The Group is principally engaged in the production and sale of coal and electricity, railway, port and shipping transportation, and coal-to-olefins businesses. The integration of coal, power, railway, port, shipping and coal chemical into one unified operation chain is the Group's unique operation and profitability model. The Group's development strategy is the "transforming into a world first-class supplier of clean energy".

In terms of sales, the Group is the largest listed coal company in China and globally with the sales volume of coal reaching 394.9 million tonnes in 2016. In terms of installed capacity of power generators, the Group holds a leading position among the listed electricity companies in China with the installed capacity of its controlled and operated power generators reaching 56,288MW by the end of 2016. The Group controls and operates a network of concentric transportation railways around the major coal production bases in western Shanxi, northern Shaanxi and southern Inner Mongolia as well as "Shenshuo – Shuohuang Line", a major channel for coal transportation from western to eastern China, and at the end of 2016, it controlled and operated railways with a total length of approximately 2,155 km. The Group also operates a number of ports and docks, such as Huanghua Port, the largest port for seaborne coal in 2016 (approximately 270 million tonnes/year seaborne operation capability in aggregate), possesses the shipping transportation team comprising its own vessels with approximately 2.2 million tonnes of loading capacity; and coal-to-olefins businesses with approximately 0.6 million tonnes/year of operation and production capacity.

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

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

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

In 2016, the changes in the major assets of the Company: affected by the strategic adjustments made by the Company to the capital expenditure structure for certain years in the past, at the end of the reporting period, the asset proportion of railway segment, power-generating segment and port segment increased and the asset proportion of coal segment decreased compared with that at the beginning of the reporting period.

As of 31 December 2016, the Group's total assets amounted to RMB576,729 million, representing an increase of 3.0% as compared with that at the end of last year, and the equity attributable to equity holders of the Company amounted to RMB316,975 million, representing an increase of 6.3% as compared with that at the end of last year. The total offshore assets of the Group (including Hong Kong, Macau and Taiwan) amounted to RMB22,792 million, representing 4.0% to total assets, which are mainly composed of the assets from USD bonds issued in Hong Kong, PRC, and coal mine and power generation assets in Australia and Indonesia.

Section III Business Overview (Continued)

III. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The core competitiveness of the Group are mainly:

- 1. Unique operation and profitability model:** The business model of the Group is vertical integration which enables deepened cooperation, shared resources, synergy, low-cost operation, and standardized, professional and all-rounded development, as well as maximizes profits driven by every stage of coal-based industry. A unified operation chain ensures a stable and reliable supply and internal demand contributing to lower operation costs and enhance competitiveness.

In 2016, by actively implementing national adjustment and control policy on the industry and fully developing its advantages of unified operation, the Company achieved favorable results of cost control and continuous increase in market share. Powerful synergy created among businesses and strengthening overall competitiveness was clearly seen, resulting in a significant increase in operating results.

- 2. Coal mining rights:** The Group possesses an abundant pool of high-quality coal resources which are suitable for modern high-quality and high-efficient shaft mining. As of the end of 2016, under the coal mining rights possessed and controlled by China Shenhua, it had coal retained resources of 24.01 billion tonnes and the recoverable coal reserves of 15.43 billion tonnes under the PRC Standard; the marketable coal reserves of 8.85 billion tonnes under the JORC Standard. The coal reserves of the Group is among the top of listed coal companies in China.

- 3. Management team focusing on core business and cutting-edge business minds:** The management team of China Shenhua has profound knowledge and management experience in the industry, attaches great importance to enhancement of the Company's capabilities in value creation, conducts operation with a focus on the principal businesses of the Company, and persistently focuses on clean generation and utilisation in energy sector.

In 2016, the management team of the Company persistently promoted and implemented the development strategies of clean energy for China Shenhua and promoted the Company's endeavor towards building itself into a world-class supplier of clean energy, being a market leader of clean development.

- 4. Advanced technology and innovation capabilities:** With consistent efforts in advancing its technology and innovation capabilities, China Shenhua's technology in coal exploitation and production safety has secured a leading position in the global market, and that of clean coal-fired power generation and heavy-loaded transportation has secured a leading position in domestic market, basically establishing a unified operation system of technology and resources and a technological innovation-driven development model comprising decision-making, system management, research and development, and transformation of achievements.

In 2016, the National Key Laboratory of "Water Resources Preservation and Utilisation in Coal Mining" was officially launched, and the "Key Technology and Demonstration Project on Intelligent Coal Mine Construction" developed by Shendong Coal Group Corporation was awarded the Second-Class Prize of the National Science and Technology Progress Award. During the reporting period, the Group was granted 683 new patents, in which 125 patents were invention patents.

- 5. Option and pre-emptive right to acquire:** Pursuant to the Non-competition Agreement signed between the Company and Shenhua Group Corporation, its controlling shareholder, the Company is granted an option and pre-emptive right to acquire retained businesses and certain potential businesses from Shenhua Group Corporation.

Section IV Chairman's Statement



Zhang Yuzhuo
Chairman

Section IV Chairman's Statement (Continued)

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.

Section IV Chairman's Statement (Continued)

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.

Section IV Chairman's Statement (Continued)

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 soot, sulphur dioxide and nitrogen oxides of thermal power generators for the year were 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. The “Key Technology and Demonstration Project on Intelligent Coal Mine Construction launched” was awarded the Second-Class Prize of the National Science and Technology Progress Award. The National Key Laboratory of “Water Resources Preservation and Utilisation in Coal Mining” was officially launched 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 tonne of coal output of coal mines was zero 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.

Section IV Chairman's Statement (Continued)

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.

Section IV Chairman's Statement (Continued)

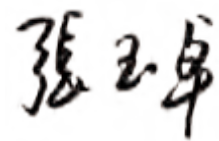
Optimising the asset structure and enhancing efficiency while increasing quality on an on-going basis.

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

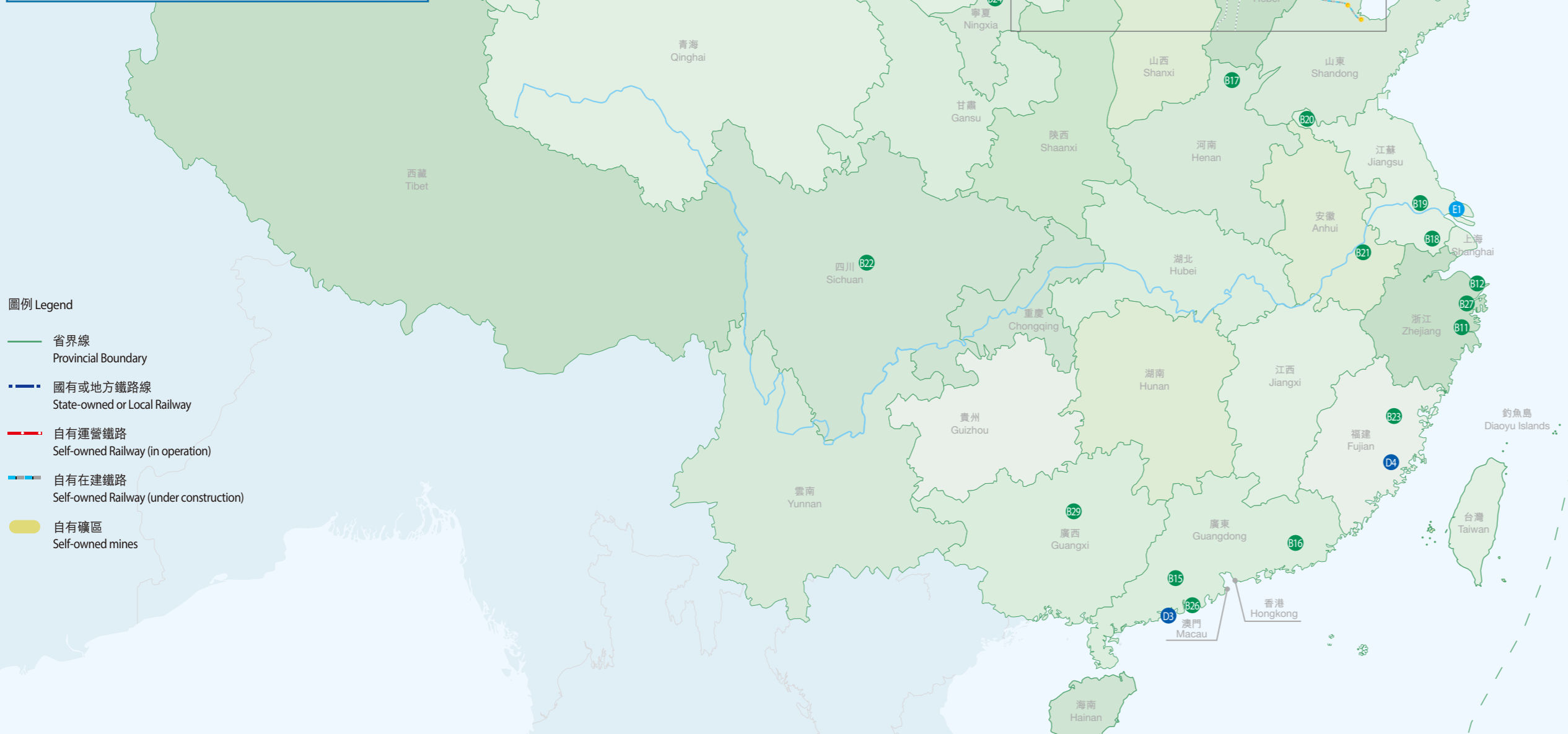
17 March 2017



Section V Directors' Report







- 圖例 Legend**
- 省界線
Provincial Boundary
 - 國有或地方鐵路線
State-owned or Local Railway
 - 自有運營鐵路
Self-owned Railway (in operation)
 - 自有在建鐵路
Self-owned Railway (under construction)
 - 自有礦區
Self-owned mines

煤礦 COAL MINE

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

電廠 POWER

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

鐵路 RAILWAY

- C1. 神朔鐵路
Shenshuo Railway
- C2. 朔黃鐵路
Shuohuang Railway
- C3. 黃萬鐵路
Huangwan Railway
- C4. 大准鐵路
Dazhun Railway
- C5. 包神鐵路
Baoshen Railway
- C6. 巴准鐵路
Bazhun Railway
- C7. 甘泉鐵路
Ganquan Railway
- C8. 准池鐵路
Zhunchi Railway
- C9. 黃大鐵路 (在建)
Huangda Railway (under construction)
- C10. 塔韓鐵路
Tahan Railway
- C11. 阿莫鐵路 (緩建)
Amo Railway (construction suspended)

港口 PORT

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

煤化工 COAL CHEMICAL

- F1. 包頭煤化工
Baotou Coal Chemical

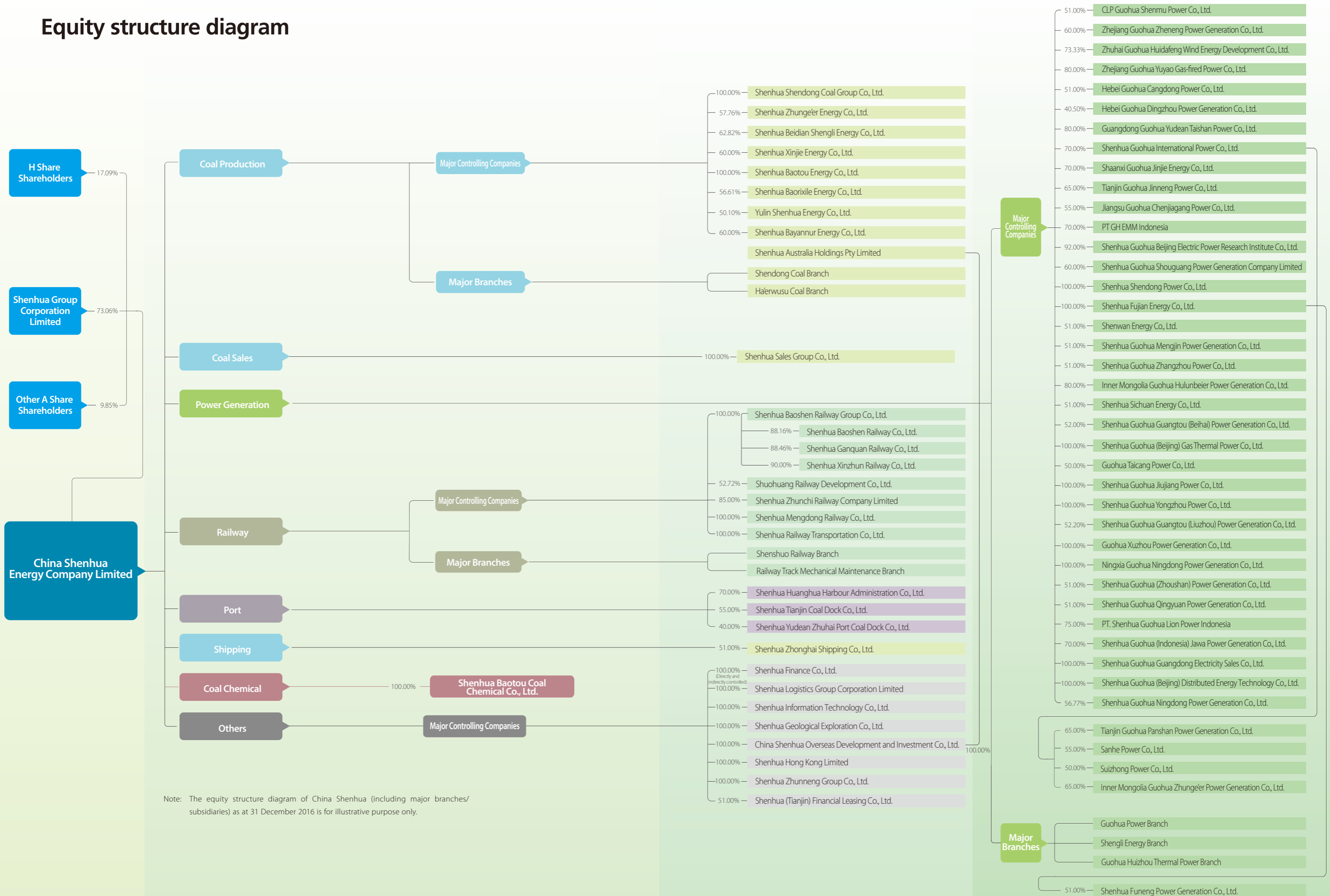
航運 SHIPPING

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

註：於2017年3月17日之分佈圖，僅做示意。
Note: This map as at 17 March 2017 is for illustrative purpose only.



Equity structure diagram



Note: The equity structure diagram of China Shenhua (including major branches/subsidiaries) as at 31 December 2016 is for illustrative purpose only.

Section V Directors' Report

I. BUSINESS REVIEW

In 2016, the demand and supply in the coal industry had been developed 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) representing a year-on-year increase of 28.1%; 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	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, 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

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

Section V Directors' Report (Continued)

II. DISCUSSION AND ANALYSIS ON MAJOR OPERATION DATA DURING THE REPORTING PERIOD

(I) Analysis on principal business

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 expense	(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.

1. 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 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%;

Section V Directors' Report (Continued)

- 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
(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:					
Via Huanghua Port	Million tonnes	158.6	111.6	42.1	131.6
Via Shenhua Tianjin Coal Dock	Million tonnes	39.5	40.3	(2.0)	36.6
Via 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

Section V Directors' Report (Continued)

(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	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.

Section V Directors' Report (Continued)

(3) Major Business segments

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

Unit: RMB million

Major business segments in 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.

Section V Directors' Report (Continued)

(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	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.

Section V Directors' Report (Continued)

2. 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 cost of sales 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 costs.
- (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 expense: 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.

Section V Directors' Report (Continued)

3. 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, investment in the research and development by 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.

4. 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 increase of bank acceptance bills receivable and account receivable were significantly less than that of 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.

Section V Directors' Report (Continued)

(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)	Decrease in notes being become due for repayment and 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 debentures	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 medium-term notes	19,989	3.5	0	0.0	/	Increase of medium-term notes 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
Medium-term notes	4,985	0.9	24,955	4.5	(80.0)	Medium-term notes to be due within one year were reclassified to non-current liabilities due within one year

Section V Directors' Report (Continued)

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. For the relevant construction progress, please refer to note 16 Construction in Progress to the financial statements in this report.

Section V Directors' Report (Continued)

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 Guohua 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 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 tonnes¹.

¹ Data source: State Administration of Coal Mine Safety

Section V Directors' Report (Continued)

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.

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/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.

Section V Directors' Report (Continued)

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			Change in price %
	Sales volume Million tonnes	Percentage %	Price RMB/tonne	Sales volume Million tonnes	Percentage %	Price 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 point 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 tonne of 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.

Section V Directors' Report (Continued)

(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 which are taken by the Company for environmental protection are detailed in the "2016 Corporate Social Responsibility" 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

Section V Directors' Report (Continued)

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

Section V Directors' Report (Continued)

		2016	2015	Change (%)	Main reasons for changes
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 RMB million	Costs RMB million	Gross profit RMB million	Gross profit margin %	Revenue RMB million	Costs RMB million	Gross profit RMB million	Gross profit margin %
Domestic	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 customers. 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).

Section V Directors' Report (Continued)

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 through optimizing the production units; Decrease in fuel price
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 and fees
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.

Section V Directors' Report (Continued)

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 kWh¹ 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.

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 construction 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.

¹ Data Source: National Energy Administration

Section V Directors' Report (Continued)

(2) Power consumption and power tariffs

① Classified by power type

Power type	Gross power generation (billion kWh)			Total power output dispatch (billion kWh)			Power tariff (RMB/mWh)		
	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)			Power output dispatch (billion kWh)			Power tariff (RMB/mWh)		
	2016	2015	Year-on-year (%)	2016	2015	Year-on-year (%)	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)

Section V Directors' Report (Continued)

Location/ Type of power	Power generation (billion kWh)			Power output dispatch (billion kWh)			Power tariff (RMB/mWh)		
	2016	2015	Year-on- year (%)	2016	2015	Year-on- year (%)	2016	2015	Year-on- year (%)
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)
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)

Section V Directors' Report (Continued)

(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 kW¹ 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

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.

¹ Data source: China Electricity Council

Section V Directors' Report (Continued)

(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 hours¹ 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.

Power type	Average utilisation hours (Hour)			Power consumption ratio of power plant (%)		
	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

(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 average standard coal consumption for power sold of coal-fired power generators of the Group for the year was 315 g/kWh, representing a decrease of 3 g/kWh as compared with the same period last year.

¹ Data source: China Electricity Council

Section V Directors' Report (Continued)

(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	
Gross profit margin	%	22.8	31.8	Decreased by 9.0 percentage points	Increase in purchase costs of coal of power plants resulting from the growth in coal price; Power output dispatch increased year-on-year
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	

Section V Directors' Report (Continued)

② Revenue and cost from the sale of power of the Group before elimination on consolidation

Unit: RMB million

Power type	Revenue from sale of power			Cost of sale of power				
	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 of special fund for 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 in costs %
	Costs RMB million	Percentage %	Costs RMB million	Percentage %	
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

Section V Directors' Report (Continued)

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.

Section V Directors' Report (Continued)

(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 in third party coal transportation and non-coal transportation businesses by the Company
Cost of sales	RMB million	17,350	14,595	18.9	
Gross profit margin	%	48.3	46.4	Increased by 1.9 percentage points	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
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.

Section V Directors' Report (Continued)

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	
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.

Section V Directors' Report (Continued)

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 price 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)	
Gross profit margin	%	19.2	12.1	Increased by 7.1 percentage points	Decrease in fuel price, and improved control on costs
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.

Section V Directors' Report (Continued)

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 Thousand tonnes	Price RMB/tonne	Sales volume Thousand tonnes	Price RMB/tonne	Sales volume %	Price %
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 low level
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	

Section V Directors' Report (Continued)

(3) Unit production cost of main products

	2016		2015		Change	
	Production volume Thousand tonnes	Unit production cost RMB/tonne	Production volume Thousand tonnes	Unit production cost RMB/tonne	Production volume %	Unit production cost %
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.

Section V Directors' Report (Continued)

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 Guohua 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 (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 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%. 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.

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

(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 held by Shenhua Finance Company and a handful of thermal coal futures. The initial investment cost of the trust management products 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.

Section V Directors' Report (Continued)

(VII) Disposal of material assets and equity interest

Applicable Not applicable

(VIII) Analysis on major holding and associated companies

1. Major subsidiaries

Unit: RMB million

No.	Company	Registered capital	Total assets	Net assets	Net profit attributable to the equity holders of the parent company			
		As at 31 December 2016	As at 31 December 2016	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.

Details regarding the Company's acquisition of subsidiaries are set out in investment in subsidiaries of note 43 to the financial statements of this report.

Section V Directors' Report (Continued)

2. Shenhua Finance Company

As of the end of the reporting period, the Company directly and indirectly held 100% equity interest in Shenhua Finance Company.

No.	Name of Shareholder	Percentage of equity interest held (%)
1	China Shenhua Energy Company Limited	81.43
2	Shuohuang Railway Development Co., Ltd.	7.14
3	Shenhua Zhunge'er Energy Co., Ltd.	7.14
4	Shenhua Baoshen Railway Co., Ltd.	4.29
Total		100.00

During the reporting period, Shenhua Finance Company strictly implemented the following resolutions passed at the 12th meeting of the second session of the Board of China Shenhua held on 25 March 2011: (1) China Shenhua currently had no intention or plan to change the existing operation policies and strategies of Shenhua Finance Company; (2) the deposits placed by China Shenhua and its subsidiaries and branches with Shenhua Finance Company would be used solely for the credit business of China Shenhua and its subsidiaries and branches, and would be deposited in the People's Bank of China and the five major commercial banks (namely, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications), and would not be invested in the public market/private equity market and real estate, etc.

(1) Governance of Shenhua Finance Company is as follows:

A. Board of directors

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

Note: According to the resolutions passed at the second shareholder's general meeting of Shenhua Finance Company in 2016, it was proposed to recommend the appointment of Mr. Xu Shancheng to serve as a director of the company, and Mr. Hao Jianxin will no longer serve as a director of the company. The approval procedure on the qualification for appointment of Mr. Xu Shancheng is under progress and will be duly valid upon the approval from the Beijing Branch of China Banking Regulatory Commission.

Section V Directors' Report (Continued)

Dr. Zhang Kehui, the chairperson of Shenhua Finance Company, has many years of financial management and auditing experience, she has served as the deputy general manager of the financial department of Shenhua Group Corporation and head of the auditing department of China Shenhua. Dr. Zhang Kehui also serves concurrently as the chief financial officer of China Shenhua.

Each of the three executive directors has extensive experience in financial and risk management. Mr. Han Weiping, executive director, has over 30 years of experience in financial management. He served as the deputy general manager of the financial department of Shenhua Group Corporation in 1996, and deputy general manager and general manager of Shenhua Real Estate Co Ltd. since 2001. Mr. Han has extensive experience in management. Ms. Mei Xueyan, executive director, has served as a director of Shenhua Finance Company since January 2005 and had served as the general manager of Shenhua Finance Company. Ms. Mei Xueyan had worked on capital planning, finance investment and internal control at the headquarters of China Construction Bank for eight years. Mr. Zhang Ying, executive director, joined Shenhua Finance Company in 2000 and has served as a deputy general manager of Shenhua Finance Company since November 2011. Working at Shenhua Finance Company for many years, Mr. Zhang Ying is familiar with the business and conditions of Shenhua Finance Company and possesses extensive management experience.

Mr. Feng Ning, non-executive directors, and Ms. Zhang Donghui, employee director, participated in the decision-making process of the Company by attending board meetings.

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

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

In 2016, the board of Shenhua Finance Company held three meetings.

Section V Directors' Report (Continued)

B. Board Committees

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

(A) Related Party Transaction Control Committee

Related Party Transaction Control Committee of Shenhua Finance Company is responsible for administration over the related party transactions of the company, including identification, statistics, forecasts, reporting, limit management and recommendations in respect of the related party transactions.

In 2016, the Related Party Control Transaction Committee held one meeting.

(B) Risk Management Committee

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

In 2016, the Risk Management Committee held one meeting.

(C) Audit Committee

In order to further improve the corporate governance structure and the internal audit management mechanism, Shenhua Finance Company approved the Proposal on Establishment of the Audit Committee on the 7th meeting of the fourth session of the board of directors held on 10 November 2016, and established the Audit Committee which was responsible for advising the internal audit of the company and providing advice and consultation for board decision-making.

In 2016, the Audit Committee did not hold any meeting.

Section V Directors' Report (Continued)

(2) Risk Management and Internal Control

Shenhua Finance Company establishes a comprehensive risk management system for all business departments by means of real-time assessment by risk management department and internal audit based on corporate governance.

The establishment of a comprehensive risk management system consists of one objective: comprehensive risk management objective; two levels: corporate governance level and company management level; three dimensions of control: all-round control, entire-process control and all-member control; four sub-systems: organization sub-system, scheme sub-system, control sub-system and supervision sub-system; and five elements: internal environment, risk identification and assessment, control activities, information and communication and internal supervision.

Shenhua Finance Company established a comprehensive risk management framework with "one basis and three lines of defense". One basis refers to a sound corporate governance structure; and three lines of defense refer to the front line of defense comprising all business and functional departments of the company, the middle line of defense comprising the risk management and compliance departments, and the back line of defense comprising the audit and internal audit departments.

With a strategic objective of "building an internal control system compatible with the intrinsic safety management framework of the Group and in compliance with external regulatory requirements with an aim of increasing value of the shareholders' capital, targeted at risks and in a means of process based on the company's development strategy", Shenhua Finance Company has progressively established an effective inspection and supervision mechanism to conduct regular or spot tracking inspection and supervision on internal control and stringent rectification of identified internal control defects.

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

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

Unit: RMB million

	As at 31 December 2016	As at 31 December 2015	Change (%)
Balance of deposits	46,603	51,282	(9.1)
Balance of loans	30,672	29,380	4.4
Of which: balance of guaranteed loans	0	0	/

Section V Directors' Report (Continued)

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

(a) Balance of deposits of the top ten customers

Unit: RMB million

No.	Name of customer	As at 31 December 2016
1	China Shenhua Energy Company Limited	33,111
2	Shenhua Guoneng Group Company Limited	3,777
3	China Shenhua Coal Liquefaction and Chemical Company Limited	1,736
4	Beijing Guohua Power Company Limited	1,647
5	China Shenhua International Construction Company Limited	1,193
6	China Energy Conservation and Environmental Protection Group	1,017
7	Guohua Energy Investment Co., Ltd.	798
8	Shenhua Wuhai Energy Co., Ltd.	703
9	Shenhua Ningxia Coal Industry Group Co., Ltd.	684
10	Shenhua Group Corporation Limited	620

Note: Data of all companies were consolidated except those of Shenhua Group Corporation, which were based on the headquarters of the company.

(b) Balance of loans of the top ten customers

Unit: RMB million

No.	Name of customer	As at 31 December 2016
1	Shenhua Ningxia Coal Industry Group Co., Ltd.	4,500
2	Shenhua Xinzhun Railway Co., Ltd.	3,500
3	State Grid Energy Hami Coal and Electricity Co., Ltd.	3,000
4	Shenhua Zhunchi Railway Company Limited	3,000
5	Shenhua Yili Energy Co., Ltd.	2,198
6	Shenhua Bayannur Energy Co., Ltd.	2,129
7	Shenhua Ganquan Railway Co., Ltd.	1,857
8	Shenhua Guoneng Jiaozuo Power Plant Company Limited	1,500
9	Shenhua Group Corporation Limited	1,000
10	China Shenhua Coal Liquefaction and Chemical Company Limited	1,000
11	Inner Mongolia Dayan Mining Industry Group Co., Ltd.	1,000

Section V Directors' Report (Continued)

C. *Approval of loans during the reporting period*

Unit: RMB million

Item	2016
Amount of contracted loans	10,620
Amount of granted loans (including discounted assets) ^{Note}	8,082
Of which: amount of guaranteed loans (including discounted assets) ^{Note}	0
Amount of rejected loans	/

Note: The amount of granted loans refers to the balance as at 31 December 2016 of the loans granted in the current year in connection with the loans contracts signed in 2016.

(IX) Structured Vehicle Controlled by the Company

Applicable Not applicable

(X) Environmental Policies and Performance

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

Please refer to the Social Responsibility Report of the Group for information in respect of environmental protection of the Company.

(XI) Compliance with Relevant Laws and Regulations

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that are related to the business and operation of the Group. In 2016, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

(XII) Relationship with Stakeholders

For details of remuneration and training of the Group's employees, please refer to the section headed "Directors, Supervisors, Senior Management and Employees". The Group also understands that it is important to maintain good relationships with customers, suppliers and other business partners to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business updates with them when appropriate. In 2016, there was no material and significant dispute between the Group and its customers, suppliers and other business partners.

Section V Directors' Report (Continued)

(XIII) 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 COMPANY¹

(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 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.

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.

Section V Directors' Report (Continued)

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 <i>(million tonnes)</i>	3,410	3,747	(9.0)
Coal import <i>(million tonnes)</i>	255.6	204.1	25.2
Coal transportation by railway <i>(million tonnes)</i>	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%.

Section V Directors' Report (Continued)

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.

Section V Directors' Report (Continued)

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 experienced a downward trend 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 coal. 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 in 2016 remained a relatively rapid growth. The cumulative power consumption of the whole society for the year 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 rate. The installed capacity of power generation by non-fossil energy such as hydropower and nuclear power will continue to increase with a high speed.

Section V Directors' Report (Continued)

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.

Section V Directors' Report (Continued)

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.

Section V Directors' Report (Continued)

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.

Section V Directors' Report (Continued)

(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
Percentage change of 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

Section V Directors' Report (Continued)

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.

Section V Directors' Report (Continued)

(V) Major risks faced

The Company has established a closed-loop risk management system: it will perform risk identification and determine the major risks upon assessment at the beginning of each year, then monitor such risks on a daily basis by way of specialized inspection, internal audit, quarterly report of subsidiaries and branches and other methods, and assess its major risk management at the year end. This facilitates and improves the decision-making process, refines the internal control system, and continues to raise the risk management standard. The Board and the Audit Committee of the Company is of the view that such mechanism is able to assess the effectiveness of the operation of the risk management of the Company. Investors should be aware that although the Company has reviewed and listed the major risks, and adopted relevant countermeasures, there is no absolute guarantee that all adverse impact could be eliminated due to the limitation of various factors.

1. Risk of macroeconomic fluctuations

The industry in which the Group operates is closely correlated to the prosperity of the national economy. In 2016, the GDP of China grew by 6.7%, which was a record low since 1990. Uncertainties will still remain amid the steady pace of the macro-economy, which may materially affect the Group's results.

To cope with the risk of macroeconomic fluctuations, the Group will further strengthen the studies on relevant industrial trends, optimise production structure, and implement strategies of green energy to continuously upgrade the quality of development.

2. Risk of market competition

In the coal market, China intended to eliminate production capacity of 150 million tonnes in 2017 at a reasonable pace of eliminating excessive capacities while ensuring the effective transition between those capacities with the following resources and stable coal supply to prevent any abnormal fluctuation of coal price beyond the reasonable range. There will be oversupply in the market in 2017 in general. In the power market, under the inevitable oversupply in installed power capacity in short term due to the slowdown in economic growth and sluggish growth in the total power consumption of the society, the power reform and the opening of power generation planning in 2017 will result in intensified competition and declining transaction prices in the thermal market. In the coal chemical market, it is affected relatively by exchange rate fluctuations and swinging international crude oil prices. Such factors may lead to adverse impacts on the Company, such as lower sales prices of coal, coal chemical products and lower power generation than expected, indications of impairment on relevant assets, and therefore may affect the Company's business results.

In response to the risks of market competition, the Company will reinforce the efforts on its coal market research and judgment and proactively respond to the price changes. With further implementation of the requirements of power reform, new regional power sales companies will be established when appropriate to actively participate in the pilot reform. Furthermore, it will adhere to a balanced sales and control its inventory on coal chemical product at a reasonable level. Last but not least, it will promptly perform impairment assessment and make relevant provision for impairment in accordance with applicable accounting standards, so as to reflect the status of the Company's assets in an objective and fair manner.

Section V Directors' Report (Continued)

3. Risk of changes in industry policies

The Group's business activities are subject to the industrial regulatory policies in China. According to the national "Thirteen Five-Year" Plan for Energy published at the beginning of 2017, the total energy consumption shall be controlled at no more than 5.0 billion tonnes of standard coal by 2020. According to the "Thirteen Five-Year" Plan for Ecosystem issued by the State Council on at the end of 2016, the proportion of coal consumption to the total energy consumption shall be reduced from 62.6% in 2016 to below 58% by 2020. For 2017, China demands the total consumption of primary energy to be controlled at 4.4 billion tonnes of standard coal, the proportion of non-fossil energy consumption to total primary energy consumption to be raised to 14.3%, and the proportion of coal consumption to be reduced to approximately 60%. Currently, the nationwide power supply has entered into the stage of "relative oversupply". In 2016 and 2017, the National Energy Administration issued the Notice on Further Regulation on Coal-fired Power Generation Planning and Construction and the Notice on Further Improvement of Approved Construction of Coal-fired Projects and other documents to strict control on planning and construction of coal-fired power generation, regulate on the sequence of coal-fired power operation and construction and exact regulation on the projects in compliance with laws and regulations.

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

4. Risk of rising costs

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

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

Section V Directors' Report (Continued)

5. Risk of environmental protection

The national policies on energy saving and environmental protection have been further tightened. Following the promulgation of policies including the Implementation Plan for Pollutant Discharge Regulation and Approval System, the "Thirteen Five-Year" Working Plan for Regulation on Greenhouse Gas Emissions and the "Thirteen Five-Year" Integrated Working Plan for Energy Saving and Environmental Protection, the constraints on energy saving, carbon reduction and environmental protection are further imposed on the Group.

The Group focuses on the development strategy of clean energy. With the efficient development, use and conversion of clean coal as the core, it spares no effort in constructing ecological civilization. The Company is also building the brand image of ultra-low emissions in coal power. It further improves the environmental risk pre-control management system and strengthens the identification, remediation of potential issues and environmental emergency management in order to achieve energy conservation and emission reduction targets as well as to prevent severe environmental pollution incidents.

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

6. Risks of production safety for coal mines

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

To cope with the risks of production safety for coal mines, the Group will strengthen various areas in respect of the implementation of its safety risk prevention and control management system, inspections and treatments and assessment of significant risks, improvement on "three-breaching" control mechanism, reinforcement of contractor management in production safety, enhancement of site management level, safety production training, emergency rescue management, and consolidation of safety production fundamentals.

Section V Directors' Report (Continued)

7. Risk of integrated operations

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

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

8. Risk of international operations

Due to the complex economic, social, political and religious conditions in the globe and the fluctuations in exchange rates, the risk of investments in different countries varies significantly. Given the highly competitive energy market worldwide, the uncertainties in the Group's international operations may have an impact on its overseas business.

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

9. Risk of natural disasters

The production and operation activities of the Group will be affected by factors including natural disasters or bad weather. Certain particularly major natural disasters which occurred in China in recent years had adversely affected the Group's operations to a certain extent. Factors such as unforeseeable natural disasters and bad weather may bring certain losses to the Group's operations.

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

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

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

Applicable Not applicable

V. PROFIT DISTRIBUTION PLAN

Please refer to "Significant Events" to this report.





Section VI Significant Events

Section VI Significant Events

I. PROFIT DISTRIBUTION PLAN

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

In accordance with the requirements of the relevant laws and regulations and the Articles of Association, the profit distribution policy of the Company shall maintain continuity and stability and emphasize on achieving reasonable 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 and the International Financial Reporting Standards, whichever is lower. Annual profit distribution in cash shall be no less than 35% of the net profit for the year attributable to equity holders of the Company subject to the relevant conditions.

(II) Profit distribution scheme/plan

1. Final dividend scheme/plan for the year

Year	Dividend per 10 shares (inclusive of tax) <i>RMB</i>	Amount of cash dividend (inclusive of tax) <i>RMB million</i>	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) <i>RMB million</i>	Percentage to the profit for the year attributable to equity holders of the Company in the consolidated financial statements %
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

Section VI Significant Events (Continued)

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 of the Company recommends the payment of a final dividend for year 2016 in cash 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 equity holders 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 approximately 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 plans for the 2016 final dividend and the special dividend, the Board has attended to and considered the opinions and concerns of the shareholders of the Company, in particular the minority shareholders. The Company will hold the 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.

Section VI Significant Events (Continued)

4. The final dividend for year 2016 and the special dividend are denominated and declared in RMB, which will be distributed together. The final dividend for year 2016 and the special dividend will be paid in RMB to holders of the Company's A shares, including holders of the Company's A shares through the Northbound Trading Link of the Shanghai-Hong Kong Stock Connect (hereinafter referred to as the "Northbound shareholders") and holders of the Company's H shares through the Southbound Trading Link (hereinafter referred to as the "Southbound Shareholders"). Dividends to holders of the Company's H shares, except the Southbound Shareholders, are paid in HKD. The dividend paid in HKD is calculated according to the exchange rate based on the average benchmark rate of RMB against HKD, as published by the Bank of China five business days preceding the date of declaration of such dividend.

In accordance with the preliminary arrangement of profit distribution plan and annual general meeting, the 2016 final dividend and the special dividend for the Company's H shareholders 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 the final dividend for year 2016 and the 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 the final dividend for year 2016 and the special dividend distribution to holders of A shares.

Section VI Significant Events (Continued)

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

Temporary closure of the register of members					The Company's share registrar for H shares
No.	Corresponding Rights	First Day (inclusive)	Last Day (inclusive)	The last day for registering members	
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 the final dividend for year 2016 and the special dividend	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 the final dividend for year 2016 and the 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%.

Section VI Significant Events (Continued)

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 the 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.

Section VI Significant Events (Continued)

II. PERFORMANCE OF COMMITMENTS

Background of Commitment	Type of Commitment	Covenantor	Commitment	Date and Duration of Commitment	Any Time Limit for Commitment	Timely and Strict Performance of Commitment	Detailed reasons shall be specified if commitment is not fulfilled in time	Further steps shall be specified if commitment is not fulfilled in time
Commitment in relation to initial public offering	Non-competition undertaking	Shenhua Group Corporation	The Company and Shenhua Group Corporation entered into a "Non-competition Agreement" on 24 May 2005. Pursuant to such agreement, Shenhua Group Corporation has committed not to compete with the Company in respect of the Company's principal businesses whether inside or outside of the PRC, and granted the Company priority trading and pre-emptive right to acquire and be transferred from Shenhua Group Corporation any business opportunities and assets which may pose potential competition.	24 May 2005, long-term	Yes	Yes, in process	N/A	N/A
Other commitment	Commitment in relation to increase in shares	Shenhua Group Corporation	Shenhua Group Corporation proposed to increase its shareholding of A shares in the Company in its own name via the trading system of the Shanghai Stock Exchange within 12 months after 8 July 2015. Shenhua Group Corporation undertakes that it will not dispose any share it holds in the Company during the period of the implementation of the increase plan and within the statutory period.	From 8 July 2015 to 7 July 2016	Yes	Yes, completed	N/A	N/A

To further formulate the performance of the Non-competition Agreement, the Resolution on the Performance of Non-competition Undertaking was approved at the 45th meeting of the second session of the Board on 27 June 2014 and the Announcement in relation to the Performance of Non-competition Undertaking was disclosed to public. The Company disclosed that it will commence the acquisition of 14 assets of Shenhua Group and its subsidiaries before 30 June 2019 (submitting the asset acquisition proposal to the internal competent authorities of China Shenhua for approval procedure); Shareholders are advised to pay attention to the risks involving the change in scope of acquisition, third-party statutory right of first refusal and that the commitment may fail to be fulfilled or fail to be performed on time due to objective reasons. For details, please refer to the H shares announcement dated 27 June 2014 and the A shares announcement of the Company dated 28 June 2014.

In 2015, the Company completed the acquisitions of three assets, namely Ningdong Power, Xuzhou Power and Zhoushan Power. There was no relevant asset acquisition was made in 2016.

Section VI Significant Events (Continued)

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

Applicable Not applicable

IV. AUDIT OPINIONS AND OTHER EXPLANATIONS

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

Applicable Not applicable

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

Applicable Not applicable

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

Applicable Not applicable

V. APPOINTMENT AND REMOVAL OF AUDITORS

Name of Domestic Auditors of the Company	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration of Domestic Auditors of the Company <i>(RMB million)</i>	9.20
Term of Auditing of Domestic Auditors of the Company <i>(year)</i>	4
Name of International Auditors of the Company	Deloitte Touche Tohmatsu
Remuneration of International Auditors of the Company <i>(RMB million)</i>	1.50
Term of Auditing of International Auditors of the Company <i>(year)</i>	4

On 17 June 2016, Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu were appointed as the domestic and international auditors of the Company respectively for 2016 at the Company’s 2015 annual general meeting.

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

Section VI Significant Events (Continued)

The above auditors also served as the external auditors of several subsidiaries of the Company and their remuneration relating to audit services amounted to approximately RMB2.08 million during the reporting period. Deloitte Touche Tohmatsu Certified Public Accountants LLP did not provide non-audit services to the Company and its subsidiaries during the reporting period.

VI. INSOLVENCY OR RESTRUCTURING RELATED MATTERS

Applicable Not applicable

VII. MATERIAL LITIGATION AND ARBITRATION

Applicable Not applicable

As at the end of the reporting period, the Group was not involved in any material litigation or arbitration. As far as the Group was aware, the Group did not have any material litigation or claim which was pending or threatened against the Group. As at 31 December 2016, the Group was the defendant or the party of certain non-material litigations. The management of the Company believes that any possible legal liability which may be incurred from the aforesaid cases will not have any material impact on the financial position of the Group.

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

Applicable Not applicable

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

Upon self-investigation, as at the end of the reporting period, there has been no failure in fulfilling the judgment from court or relatively large amount of outstanding debt such as failure in fulfilling the judgment from court or debit interests owed to external financial institutions due of the Company and Shenhua Group Corporation.

Section VI Significant Events (Continued)

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

Applicable Not applicable

XI. MATERIAL CONNECTED TRANSACTIONS

Applicable Not applicable

(I) Connected transactions during the daily operation

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

(1) Non-exempt continuing connected transactions between the Group and Shenhua Group

In order to ensure a reliable and quality-assured provision of materials and services for the Company, lower operation risks and costs, and allow Shenhua Finance Company, in which the Company has controlling shareholding, to provide financial services to the companies under the Group and Shenhua Group Corporation so that it can fully leverage on its functions as an internal financing platform and capital management platform, and to further contain risks and increase income. The Company entered into the following continuing connected transaction agreements with Shenhua Group Corporation:

A. Mutual Coal Supply Agreement

The Company entered into the Mutual Coal Supply Agreement with Shenhua Group Corporation on 22 March 2013. The Mutual Coal Supply Agreement was effective between 1 January 2014 and 31 December 2016. Pursuant to the Mutual Coal Supply Agreement, the Group and Shenhua Group mutually sold and supplied various types of coal. The price of the coal supplied under the Mutual Coal Supply Agreement is market price, namely, the price charged by an independent third party for the supply of coal of the same grade based on the normal commercial terms concluded on the normal commercial conditions in the same region or its vicinity, or the price of coal of the same grade supplied to or purchased from an independent third party by the parties separately based on the normal commercial terms concluded on the normal commercial conditions. The price of the coal supplied under the Mutual Coal Supply Agreement was determined by the Company and Shenhua Group Corporation through fair negotiation with reference to the Bohai-Rim Steam-Coal Price Index. In accordance with the provisions of the Mutual Coal Supply Agreement, priority will be given to the other party when one party purchases coal unless the terms of sales provided by a third party are more favorable.

Section VI Significant Events (Continued)

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

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

- (1) The national industrial policy as well as industry and market conditions in the PRC;
- (2) The specified guidelines issued by NDRC setting out the coal purchase prices (if any);
- (3) The current transacted coal prices of the local coal exchange or market in the PRC, i.e., the coal price with same quality that is offered to or offered by third parties under normal market conditions and normal commercial terms in the same or nearby regions. For local spot coal price, reference is generally made to (i) the spot price index of the local coal exchange or market in Bohai-rim region or nearby provinces as published on the website of 中國煤炭市場網 (www.cctd.com.cn) organised by China Coal Transportation & Sale Society (《中國煤炭運銷協會》) in the PRC; (ii) the sale price of local large-scale coal enterprises as published by each coal industry website (if any); and/or (iii) price quotation of a few enterprises with comparable quality, quantity and location (if any). Considering that the Shenhua Group (including the Group) is the largest and most technologically advanced coal enterprise in China, and is the largest coal dealer in the world, there are certain types of coal that other coal enterprises do not produce or sell. Therefore, for certain types of coal, the Company may not be able to obtain relevant price quotation of one or more other enterprises with comparable quality, quantity and location. If the Company can obtain any price quotation(s) of one or more other enterprises with comparable quality, quantity and location, the Company will obtain such price quotation(s), and will adopt the most favourable price obtained;
- (4) The quality of the coal (including the estimated calorific value of coal as required by different coal-fired power generating units);
- (5) The quantity of coal; and
- (6) The transportation fees.

Section VI Significant Events (Continued)

B. Mutual Supplies and Services Agreement

On 22 March 2013, the Company entered into the Mutual Supplies and Services Agreement with Shenhua Group Corporation. The Mutual Supplies and Services Agreement was effective between 1 January 2014 and 31 December 2016. In accordance with the Mutual Supplies and Services Agreement, in addition to providing administrative and management services at agreed price, Shenhua Group also supplied production materials and ancillary services to the Group with a pricing policy as follows:

Price prescribed by the state if applicable; when there is no state-prescribed price, the state-guidance price should be applied; where there is neither a state-prescribed price nor a state-guidance price, the market price (including bidding price); where there is no comparable market price from independent third parties, transaction prices can be determined with reference to the prices of non-connected transactions between a connected party and a third party independent thereof (or the prices of non-connected transaction between Shenhua Group Corporation and a third party independent thereof); where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price shall be the contractual price.

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

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

- (a) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular product or service, such product or service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price;
- (b) Tender and bidding price: where tender and bidding process is necessary under applicable laws and regulations, the price ultimately determined in accordance with the tender and bidding process;
- (c) Market price: to be determined based on normal commercial terms and the following method. The price of the same or similar products or services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable deals with independent third parties for the same period when determining whether the price for any product or service transaction under this Agreement is the market price; and
- (d) Agreed price: to be determined by adding a reasonable profit margin over a reasonable cost. The management shall consider at least two comparable deals with independent third parties for the same period when determining the reasonable profit of any product or service transaction under this Agreement.

Section VI Significant Events (Continued)

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

- (a) Rail transportation: price prescribed by NDRC or other related government competent authorities;
- (b) Construction: where tender and bidding process is necessary under applicable laws and regulations, the price ultimately determined in accordance with the tender and bidding process; where tender and bidding process is not necessary under applicable laws, the market price;
- (c) Oil products: government-guided price;
- (d) Alternative power generation: price prescribed by NDRC or other related government competent authorities;
- (e) Hardware and software equipment and related services: market price (including tender and bidding price);
- (f) Chemical products: market price;
- (g) Production equipment and spare parts, office products: market price;
- (h) Tendering services: price prescribed by NDRC;
- (i) Technical consulting services: agreed price with a profit margin of approximately 10%;
- (j) Information technology services: the budget is reviewed by professional institution(s) with pricing reviewing qualification according to relevant national and industrial rules and regulations on construction pricing, pricing mechanism and fee standards, with reference to the market customs of the information technology industry, actual standards and market price, taking into account the actual condition of the Company's information technology construction. The parties negotiate and agree on the service price within the scope of budget;
- (k) Logistics and support services and training services: agreed price (cost plus a profit margin of approximately 5%);
- (l) Social security and pension management services and staff data recording services: agreed price (cost plus a profit margin of approximately 5%); and
- (m) Various daily administrative services to the headquarters of Shenhua Group Corporation (exclusive of financial management and services): agreed price (cost plus a profit margin of approximately 5%).

Section VI Significant Events (Continued)

C. Financial Services Agreement

On 22 March 2013, the Company entered into the Financial Services Agreement with Shenhua Group Corporation. The Financial Services Agreement was effective between 1 January 2014 and 31 December 2016. In accordance with the Financial Services Agreement, the Company provided relevant financial services to Shenhua Group through Shenhua Finance Company.

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

- a. Deposits and loans: The interest rate for deposits placed by Shenhua Group Corporation, its subsidiaries and associates with Shenhua Finance Company shall not be lower than the lowest rate allowed by the PBOC for the same type of deposit; in addition to the above, the interest rate shall be determined by reference to the rate confirmed by normal commercial banks for offering the same type of deposits to Shenhua Group Corporation and its subsidiaries and associates and shall be determined on normal commercial terms. The interest rate for loans offered by Shenhua Finance Company to Shenhua Group Corporation and its subsidiaries and associates shall not be higher than the highest rate allowed by the PBOC for the same type of loans; in addition to the above, the interest rate shall be determined by reference to the rate confirmed by normal commercial banks for offering the same type of loans to Shenhua Group Corporation and its subsidiaries and associates and shall be determined on normal commercial terms;
- b. Paid services: Shenhua Finance Company may offer paid consultancy, agency, settlement, account transfer, investment, finance leasing, letter of credit, online banking, entrusted loans and other related services to Shenhua Group Corporation, its subsidiaries and associates. The fees receivable by Shenhua Finance Company for offering consultancy, agency, settlement, account transfer, investment, finance leasing, letter of credit, online banking, entrusted loans and other related services to Shenhua Group Corporation, its subsidiaries and associates shall comply with the relevant requirements on fee standards (if any) stipulated by the PBOC or the CBRC; in addition to the above, the fees receivable by the Shenhua Finance Company for offering financial services to Shenhua Group Corporation, its subsidiaries and associates shall be determined by reference to the fees receivable by normal commercial banks for offering the same type of financial services to Shenhua Group Corporation, its subsidiaries, associates and shall be determined on normal commercial terms.

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

Section VI Significant Events (Continued)

The pricing policy of the new Financial Services Agreement is as below:

- (1) Subject to compliance with the terms and conditions of the Financial Services Agreement, Finance Company shall be appointed as one of the financial institutions to provide financial services to Members of Shenhua Group. Members of Shenhua Group may obtain financial services from other financial institutions in addition to or instead of Finance Company, as it thinks fit;
- (2) the interest rates for deposits placed by Members of Shenhua Group with Finance Company under the Financial Service Agreement are negotiated on arm's length terms and with reference to the interest rate prescribed by the PBOC for the same type of deposit and interest rates charged by major commercial banks in the PRC for comparable deposits provided to Members of Shenhua Group;
- (3) the interest rates for loans granted by Finance Company to Members of Shenhua Group under the Financial Service Agreement are negotiated on arm's length terms and with reference to the interest rate prescribed by the PBOC for the same type of loan and interest rates charged by major commercial banks in the PRC for comparable loans provided to Members of Shenhua Group; and
- (4) the service fees charged by Finance Company for the provision of the financial services to Members of Shenhua Group are determined according to the fee rates fixed by the PBOC or the CBRC, and if such fixed fee rates are not available, the service fees are negotiated on arm's length taking into account the market conditions and with reference to the fee rates charged by major commercial banks for comparable services provided to Members of Shenhua Group.

Section VI Significant Events (Continued)

(2) Non-exempt continuing connected transactions between the Group and other parties

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

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

In order to secure coal transportation service for the Group, the Company entered into the Transportation Service Framework Agreement with Taiyuan Railway Bureau on 22 March 2013. The Transportation Service Framework Agreement was effective between 1 January 2014 and 31 December 2016. Pursuant to the Transportation Service Framework Agreement, the transportation fee payable by the Group was determined in accordance with the following pricing policy: (a) state-prescribed price; (b) the state-guidance price where there is no state-prescribed price; and (c) where there is neither a state-prescribed price nor a state-guidance price, the price is determined by fair negotiation between Taiyuan Railway Bureau and the Group with reference to the transportation fee received by Taiyuan Railway Bureau for offering transportation services to a third party.

On 24 March 2016, the Company renewed the Transportation Service Framework Agreement with Taiyuan Railway Bureau. The new Transportation Service Framework Agreement is effective from 1 January 2017 and will expire on 31 December 2019. Pursuant to the new Transportation Service Framework Agreement, the Taiyuan Railway Bureau Group has agreed to provide railway transportation and related services to the Group, and the Group has agreed to provide rolling stock leasing service, railway track maintenance and other related services to the Taiyuan Railway Bureau Group.

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

- (1) Government-prescribed price and government-guided price: if at any time, the government-prescribed price is applicable to any particular service, such service shall be supplied at the applicable government-prescribed price. Where a government-guided fee standard is available, the price will be agreed within the range of the government guided price.
- (2) Tender and bidding price: where tender and bidding process is necessary under applicable laws, regulations and rules, the price ultimately determined in accordance with the tender and bidding process.
- (3) Market price: the price of the same or similar services provided by an independent third party during the ordinary course of business on normal commercial terms. The management shall consider at least two comparable transactions with independent third party for the same period when determining whether the price for any transaction under the Agreement is market price.
- (4) Agreed price: to be determined by adding a reasonable profit over a reasonable cost. The management shall consider at least two comparable transactions with independent third party for the same period when determining the reasonable profit of any transaction under the Agreement.

Section VI Significant Events (Continued)

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

- (1) Transportation and related services provided by the Taiyuan Railway Bureau Group to the Group: price prescribed by NDRC or other related government authorities.
- (2) Rolling stock leasing and other related services provided by the Group to the Taiyuan Railway Bureau Group: price prescribed by NDRC or other related government authorities.
- (3) Railway track maintenance and other related services provided by the Group to the Taiyuan Railway Bureau Group: the price is negotiated and agreed by the parties on the basis of the unit price that the Taiyuan Railway Bureau Group agreed with third parties in the previous year or the same year.

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

3. Implementation of and review opinion on the non-exempt continuing connected transactions

During the reporting period, the implementation of the agreements A to D above is set out in the table below. The total amount of connected transactions for sale of products and provision of services by the Group to Shenhua Group Corporation during the reporting period amounted to RMB10,846 million, which accounted for 5.9% of the operating revenue of the Group during the reporting period.

No.	Name of agreement	Provision of products and services by the Group to connected persons and other inflows			Purchase of products and services from connected persons by the Group and other outflows		
		Prevailing transaction cap <i>RMB million</i>	Transaction amount during the reporting period <i>RMB million</i>	Proportion in the same type of transactions %	Prevailing transaction cap <i>RMB million</i>	Transaction amount during the reporting period <i>RMB million</i>	Proportion in the same type of transactions %
A	Mutual Coal Supply Agreement between the Company and Shenhua Group Corporation	34,800	4,724	4.8	38,400	4,764	18.1
B	Mutual Supplies and Services Agreement between the Company and Shenhua Group Corporation	22,300	6,122	-	12,400	3,100	-
	Including: (1) Products		6,076	8.3		1,361	0.3
	(2) Services		46	0.5		1,739	8.8
D	Transportation Service Framework Agreement between the Company and Taiyuan Railway Bureau	-	-	-	12,400	3,970	39.0

Section VI Significant Events (Continued)

No.	Name of agreement	Transaction item	Prevailing transaction cap	Transaction amount during the reporting period
			RMB million	RMB million
C	Financial Services Agreement between the Company and Shenhua Group Corporation	1. Annual total transaction amount of bill acceptance and discount services handled for Shenhua Group Corporation, the subsidiaries of Shenhua Group and the associates of Shenhua Group Corporation (excluding the Group) ("Shenhua Group and its associates")	26,000	40
		2. Maximum daily balance (including interests accrued thereon) of deposits placed by Shenhua Group and its associates	104,000	15,562
		3. Maximum daily balance of loans, consumption credit, buyer's credit and financial leasing (including interests accrued thereon) granted to Shenhua Group and its associates	71,500	15,937
		4. Maximum daily balance (including interests accrued thereon) of entrusted loans granted by Shenhua Group to the Group through Shenhua Finance Company	78,000	3,742
		5. Annual total fee charged for providing the Shenhua Group and its associates with consultancy, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan and other financial services	520	58

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

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

Deloitte Touche Tohmatsu, the international auditors of the Company, have reviewed the transactions contemplated under the agreements A to D above and issued a letter to the Board, indicating that they were not aware of any matter for which they would consider that the continuing connected transactions above (1) had not been approved by the Company's Board of Directors; (2) were not, in all material aspects, in accordance with the pricing policy of the Group, (3) were not entered into, in all material aspects, in accordance with the relevant agreements governing such transactions; and (4) the aggregate amount of those transactions for the year ended 31 December 2016 had not exceeded the annual caps disclosed in the Company's announcements on the continuing connected transactions.

Section VI Significant Events (Continued)

Certain related party transactions set out in Note 41 of the financial statements prepared under the International Financial Reporting Standards also constituted connected transactions under the Hong Kong Listing Rules and were required to be disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules. The Company has complied with the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules in respect of the above connected transactions and continuing connected transactions.

4. Caps for the non-exempt continuing connected transactions for 2017 to 2019

No.	Name of agreement	Counterparty	Connected transaction item	Date of agreement	Transaction cap (RMB million)			Approval procedure
					For the year 2017	For the year 2018	For the year 2019	
1	Mutual Coal Supply Agreement	Shenhua Group Corporation	Supply of coal by the Group to the Shenhua Group	24 March 2016	11,300	13,500	16,000	Approved at the 2015 annual general meeting on 17 June 2016
			Supply of coal by the Shenhua Group to the Group		9,400	11,400	13,500	
2	Mutual Supplies and Services Agreement	Shenhua Group Corporation	Supply of products and provision of services by the Group to the Shenhua Group	24 March 2016	11,800	11,200	11,900	
			Supply of products and provision of services by the Shenhua Group to the Group		8,800	8,800	8,800	
3	Financial Services Agreement	Shenhua Group Corporation	(1) Total amount of providing financial services of guarantee (including guarantee business within the business scope of financial enterprises, such as performance guarantee and quotation sharing) to members of Shenhua Group	24 March 2016	4,290	4,420	4,550	
			(2) Annual total transaction amount of bill acceptance and discount services		10,400	10,400	10,400	
			(3) Maximum daily balance (including interests accrued thereon) of deposits placed by members of Shenhua Group		52,000	58,500	65,000	
			(4) Maximum daily balance of loans, consumption credit, buyer's credit and finance leasing (including relevant accrued interests incurred) granted to members of Shenhua Group		26,000	28,600	32,500	
			(5) Maximum daily balance of entrusted loans (including relevant accrued interests incurred) advanced by Shenhua Group Corporation and its subsidiaries to the Company and/or its subsidiaries through Shenhua Finance Company		13,000	13,000	13,000	
			(6) Annual total fee charged for providing members of Shenhua Group with consultation, agency, settlement, transfer, investment, lease finance, letter of credit, online banking, entrusted loan, guarantee, bill acceptance and other financial services		182	221	267	
4	Transportation Service Framework Agreement	Taiyuan Railway Bureau	Rolling stock leasing, railway track maintenance and other related services provided by the Group to the Taiyuan Railway Bureau	24 March 2016	1,700	1,700	1,700	Approved by the Board on 24 March 2016
			Acceptance of railway transportation services and other related services of the Taiyuan Railway Bureau by the Group		11,600	14,000	17,000	

Section VI Significant Events (Continued)

Under the Mutual Supplies and Services Agreement, the Group and Shenhua Group entered into the Entrusted Management Services of Asset and Business Agreement (《資產和業務委託管理服務協議》), which was considered and approved at the 15th meeting of the third session of the Board of the Company on 24 March 2016. The disclosure of the renewal of the above agreement was set out in the H shares announcement dated 24 March 2016 and the A shares announcement dated 25 March 2016 of the Company.

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

Applicable Not applicable

(III) Material connected transactions regarding joint external investment

Applicable Not applicable

On 20 July 2016, the Company, Zhejiang Provincial Energy Group Co., Ltd. ("Zhejiang Energy Group") and Shenhua Ningxia Coal Industry Co., Ltd. ("Shenhua Ningxia Coal") entered into a joint venture agreement for the establishment of a joint venture company, namely Guohua Ningdong. Pursuant to the joint venture agreement, the registered capital of Guohua Ningdong is RMB400 million and the Company, Zhejiang Energy Group and Shenhua Ningxia Coal contributed 56.77%, 33.33% and 9.9%, respectively, of the registered capital.

By the end of 2016, the business registration of Guohua Ningdong had been completed and the capital contribution made by the three shareholders had been received. Guohua Ningdong is a subsidiary of the Company which is consolidated in the financial statement of the Company.

Section VI Significant Events (Continued)

(IV) Debts and liabilities between related parties

Unit: RMB million

Related party	Relationship	Funds provided to related parties			Funds offered by related parties to the Group		
		Opening balance	Amount incurred	Closing balance	Opening balance	Amount incurred	Closing balance
Shenhua Group Corporation and its subsidiaries	Controlling shareholders and its subsidiaries	0	0	0	7,423	(2,599)	4,824
Other related parties	Others	700	0	700	0	0	0
Total		700	0	700	7,423	(2,599)	4,824

Amount of funds provided by the Group to the controlling shareholder and its subsidiaries during the reporting period 0

Balance of funds provided by the Group to the controlling shareholder and its subsidiaries 0

Reasons for debts and liabilities between related parties The above related debts and liabilities incurred were mainly due to the fact that the Group provided entrusted loans to an associated company of a subsidiary of the Company through a bank, and the Group took long-term and short-term loans from Shenhua Group and performed internal decision procedures in accordance with relevant requirements.

Repayment of debts and liabilities between related parties Currently, the principal and interests of the above entrusted loans and borrowings are repaid in a normal manner in accordance with the repayment schedule.

Undertakings related to debts and liabilities between related parties Not applicable

Impacts of debts and liabilities between related parties on the operating results and financial position of the Company The above entrusted loans and borrowings are beneficial to the normal commencement of relevant project construction and production operation of the Company and have no material impact on the operating results and financial position of the Company.

Section VI Significant Events (Continued)

XII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Trust, contracting and leasing

Applicable Not applicable

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

(II) Guarantees

Unit: RMB million

1. Guarantee provided by the Company to external parties (excluding guarantee granted to its subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company		Amount guaranteed	Date of provision of guarantee (execution date of agreement)			Type of guarantee	Whether performance has been completed	Whether guarantee is overdue	Amount of guarantee overdue	Whether Counter guarantee is provided	Whether guarantee is for the benefit of related parties	Relationship
	Guaranteed			date of	Beginning date of	Expiry date of							
Shenbao Energy Company	Subsidiary	Hulunbeier Liangyi Railway Company Limited	108.26	2008.8.30	2008.8.30	2029.8.29	Joint and several liability guarantee	No	No	No	No	No	N/A
Total amount of guarantee provided during the reporting period (excluding guarantee provided to its subsidiaries)												(3.22)	
Total balance of guarantee at the end of the reporting period (A) (excluding guarantee provided to its subsidiaries)												108.26	
2. Guarantee provided by the Company and its subsidiaries for the benefit of its subsidiaries													
Total amount of guarantee provided for the benefit of subsidiaries during the reporting period												544.03	
Total balance of guarantee provided for the benefit of subsidiaries at the end of the reporting period (B)												11,032.63	
3. Aggregated amount of guarantee (including guarantee for the benefit of its subsidiaries)													
Total amount of guarantee (A+B)												11,140.89	
Proportion of total amount of guarantee in net assets attributable to shareholders of the Company at the end of the year (%)												3.6	
Including:													
Amount of guarantee provided for the benefit of shareholders, de facto controller and their related parties (C)												0	
Amount of guarantee directly or indirectly provided for the benefit of parties with a gearing ratio in excess of 70% (D)												10,688.29	
Portion of the total amount of guarantee in excess of 50% of net assets (E)												0	
Aggregated amount of the above three amounts of guarantee (C+D+E)												10,688.29	
Description of the potential joint and several repayment liability for outstanding guarantee												See below	
Description of guarantee												See below	

- Notes: 1. The amount of guarantee provided by the subsidiary to external parties of total balance of guarantee at the end of the reporting period equals to the amount of external guarantee of the subsidiary times the equity ratio of the subsidiary held by the Company;
2. Total amount of guarantee accounting for the net asset ratio of the Company = total amount of guarantee/net assets attributable to equity holders of the Company as at the end of the year under accounting standards for business enterprises.

Section VI Significant Events (Continued)

At the end of the reporting period, the total balance of the amount of guarantee provided by the Company and its subsidiaries for the benefit of its subsidiaries and that provided by the Company and its subsidiaries for the benefit of external parties amounted to RMB11,140.89 million, including:

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

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

As at the end of the reporting period, Shenbao Energy Company, in proportion to its shareholding, repaid the principal on the loans on behalf of Liangyi Railway Company Limited amounting to a total of RMB10.374 million. Shenbao Energy Company already made full provision for impairment on its 14.22% equity interest in Liangyi Railway Company Limited and the repayment amount paid on its behalf. Together with other shareholders, Shenbao Energy Company will continue to call for improvement of business operation of Liangyi Railway Company. As at 31 December 2016, Liangyi Railway Company had a gearing ratio of 119%.

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

As at 31 December 2016, the balance of guarantee for the USD Loan was USD65.25 million (equivalent to approximately RMB452.61 million and the gearing ratio of Baotou Coal Chemical Company was 40%.

- (3) According to statistics, as of the end of the reporting period, the amount of guarantee between subsidiaries in consolidated reports of the Company amounted to approximately RMB10,580.02 million, which was mainly due to the fact that Shenhua Hong Kong Limited, the wholly-owned subsidiary of the Company, provided guarantees for the issuance of USD1.5 billion bonds to China Shenhua Overseas Capital Co., Ltd., its wholly-owned subsidiary, and Shenhua Funeng Power Co., Ltd. of which the Company indirectly held 51% shares provided guarantees to its two controlling subsidiaries.

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

Section VI Significant Events (Continued)

(III) Entrusted cash asset management

1. Entrusted wealth management

✓ Applicable Not applicable

Unit: RMB million

No.	Trustor	Trustee	Type of entrusted wealth management products	Amount of entrusted wealth management	Initial date of entrusted wealth management	Expiry date of entrusted wealth management	Determination of compensation	Amount of principal actually redeemed	Actual profit gained	Whether the legal process is taken	Whether impairment provision amount	Whether it is a connected transaction	Whether it is involved in litigations
1	China Shenhua	Industrial and Commercial Bank of China	Principal-guaranteed with floating return	10,000	2016/12/27	2017/3/27	Principal and interests to be paid together on expiry date	-	-	Yes	-	No	No
2	China Shenhua	Industrial and Commercial Bank of China	Principal-guaranteed with floating return	5,000	2016/12/29	2017/3/29	Principal and interests to be paid together on expiry date	-	-	Yes	-	No	No
3	China Shenhua	China Construction Bank	Principal-guaranteed with floating return	16,000	2016/12/23	2017/3/23	Principal and interests to be paid together on expiry date	-	-	Yes	-	No	No
4	Shenhua Finance Company	China Construction Bank	Non-principal-guaranteed with floating return	250	2016/12/13	Not yet confirmed	Principal and profit to be paid on redemption date	-	-	Yes	-	No	No
5	Shenhua Finance Company	Everbright Bank	Non-principal-guaranteed with floating return	100	2016/12/14	2017/12/14	Principal and profit to be paid one-off on expiry date	-	-	Yes	-	No	No
6	Shenhua Finance Company	China Construction Bank	Non-principal-guaranteed with floating return	2,000	2016/12/22	2017/1/23	Principal and profit to be paid one-off on expiry date	-	-	Yes	-	No	No
7	Shenhua Finance Company	CITIC Trust	Non-principal-guaranteed with floating return	50	2016/12/26	Not yet confirmed	Principal and profit to be paid on redemption date	-	-	Yes	-	No	No

As of the end of 2016, the total amount of entrusted wealth management products of the Group amounted to RMB33,400 million, which was mainly consisted of principal-guaranteed products with a relatively lower risk level, and did not have any failure of receiving principal and profit when overdue.

In accordance with Rule 14.23 of the Hong Kong Listing Rules, transaction Nos. 1 and 2 above constitute a discloseable transaction of the Company when aggregated and transaction Nos. 3, 4 and 6 constitute a discloseable transaction of the Company when aggregated. For details, please refer to the H shares announcement dated 3 January 2017 and the A shares announcement dated 4 January 2017 of the Company.

Section VI Significant Events (Continued)

2. Entrusted loans

Applicable Not applicable

Unit: RMB million

Borrower	Balance of entrusted loans	Maturity	Interest rate	Use of proceeds	Whether collaterals or guarantor is provided	Whether it is expired	Whether it is a connected transaction	Whether the term is extended	Whether it is involved in litigations	Gain or loss from investment
Inner Mongolia Sanxin Railway Co., Ltd. ("Sanxin Railway Company")	37	1 year	6%	Working capital	Nil	Yes	No	No	No	0
Inner Mongolia Yili Chemical Industry Co., Ltd.	627	10 years	4.9%	Replacement of bank loans	Pledge	No	No	No	No	33

Note: The entrusted loans provided by the Company to Sanxin Railway Company was not repaid when it was due in February 2015, and both parties are under negotiation in respect of the subsequent relevant matters.

As of 31 December 2016, the Group did not grant entrusted loans with an amount exceeding 10% of the Group's latest audited net assets to any individual party. The Company did not utilise the proceeds raised to grant entrusted loans, and there was no entrusted loan that was involved in litigations.

Under centralised capital management of the Group, the entrusted loans were provided to subsidiaries which were short of funds to meet operating and development needs. The part of entrusted loans has been offset in the consolidated financial statements of the Group.

3. Other investment and wealth management products and derivatives investment

Applicable Not applicable

Investment type	Product type	Investment share (lot)	Expiry date	Gain/loss from investment (RMB million)	Whether it is involved in litigations
Commodity Futures	Thermal coal futures	460	May 2017	2	No

In addition, during the reporting period, the subject matter of the exchange rate swap transaction conducted by the Company is the loans denominated in Japanese Yen and the purpose of the said transaction is to hedge the risk exposure of the loans denominated in Japanese Yen, and not to procure profits. The specific measures adopted are in line with the nature of risk-hedging. Upon the full settlement of the final repayment of principal and interests under the swap transaction on 20 September 2016, the relevant swap transaction was terminated forthwith.

Section VI Significant Events (Continued)

XIII. PROACTIVE FULFILMENT OF SOCIAL RESPONSIBILITY

(I) Poverty alleviation

1. Targeted poverty alleviation plan

The Group values the poverty alleviation work conforming to the requirements under the targeted poverty alleviation plan and documents of the State. Adhering to the principle of contributing based on its ability to benefit the public, the Group has adopted different measures based on the local circumstances with emphasis on the outcome and focused on the grassroots and the "Three Rural Issues". With continuous improvement of the production capability, life quality and medical condition in provinces targeted for support, provinces under focused poverty alleviation and deprived villages as the intention and the foothold, the Group meticulously organized poverty alleviation projects and constantly invested supporting funds with standardized management and enhanced supervision while carrying out various work including education support, hygiene improvement and medical support, enhancement in construction of rural infrastructure and production facilities and assistance in the development of special industries in deprived regions. Shenhua Foundation is the major entity of the Group for execution of poverty alleviation work and the Group is the key governing unit and the major donor¹ of Shenhua Foundation.

2. Summary of the targeted poverty alleviation during the year

In 2016, the Group contributed approximately RMB125 million² to the targeted poverty alleviation which was mainly used for the Tibet-support, Qinghai-support, Xinjiang-support and targeted poverty alleviation work, education subsidy for the students in deprived regions, construction of roads, schools and libraries in deprived regions, and aids to children with leukemia and congenital heart disease in impoverished families. Each poverty alleviation work achieved remarkable results and was well recognized by the local government and citizens. For the details of Shenhua Foundation and the relevant poverty alleviation work, please refer to the 2016 CSR Report which is disclosed in conjunction with this report.

In 2016, Shenhua Foundation invested RMB300 million into the "Central State-Owned-Enterprises Poverty Regional Industrial Investment Fund" (中央企業貧困地區產業投資基金).

¹ The donation from the Group accounts for 82% of the total donation received by Shenhua Foundation since its establishment.

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

Section VI Significant Events (Continued)

3. Statistical table of the targeted poverty alleviation work in 2016¹

Index	Number and Circumstances
I. General	
In which: 1. Capital (RMB0'000)	12,541
II. Contribution by Category	
1. Education Support (RMB0'000)	1,735
In which: 1.1 Subsidy for poor students (RMB0'000)	279
1.2 Number of subsidized poor students	1,200
1.3 Improvement of educational resources in deprived regions (RMB0'000)	1,456
2. Health Support (RMB0'000)	4,740
In which: Helping poor people with treatment for serious illness (RMB0'000) ^{Notes}	4,740
3. Social Support (RMB0'000)	4,905
In which: 3.1 Cooperation for poverty alleviation in eastern and western regions (RMB0'000)	3,977
3.2 Targeted poverty alleviation (RMB0'000)	928
4. Other Projects (RMB0'000)	1,161
In which: 4.1. Number of projects	1
4.2. Contribution amount (RMB0'000)	1,161
4.3. Description of other projects	Improvement of infrastructure in deprived villages
III. Awards	The Shenhua Loving Care Activities was awarded the title of "State-owned Enterprise Voluntary Service Brand" by SASAC of the State Council

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

4. Subsequent targeted poverty alleviation plan

In 2017, the Group will earnestly adhere to the spirit of poverty alleviation of the State and continue to fulfil the political responsibility and social responsibility of a state-owned enterprise. It will constantly enhance the efforts on Tibet-support, Qinghai-support, Xinjiang-support and targeted poverty alleviation work, and carry out various poverty alleviation works with precision and priority to emergency. Support for social public services segment, such as education support, medical support and technology support, will be prioritized. It will strive to improve the production capability and living condition in deprived regions and unearth the relative advantages in deprived regions such as special farming and husbandry industry and abundant labor resources. By adequately integrating the poverty alleviation resources of the Group with the local relative advantages and resources, the Group will gradually enhance the self-development capability of the poor and alter the economic development mode of the deprived regions with provision of further support and assistance to the poverty alleviation and wealth acquisition in the deprived regions.

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

Section VI Significant Events (Continued)

(II) Corporate social responsibilities

For details of the Group's CSR endeavors, please refer to the 2016 CSR Report which is disclosed in conjunction with this report.

(III) Environmental issues of listed companies and their subsidiaries in heavy polluting industries as stipulated by the competent environmental protection authorities of the PRC

During the reporting period, the Group did not have any material environmental pollution accidents.

47 enterprises under the Group were categorized as national major pollution source under supervision (among which 42 were exhaust gas enterprises and 6 were wastewater discharging enterprises (inclusive of 1 exhaust gas enterprise concurrently)), mainly located in Inner Mongolia, Shaanxi, Fujian, Hebei, Anhui, Jiangsu and Zhejiang.

The main pollutants emitted by exhaust gas enterprises are soot, sulphur dioxide and nitrogen oxides, which are emitted to the atmosphere through the chimneys. Exhaust gas enterprises are mainly distributed in public thermal power plants, coal-to-chemical captive power plants, heating boilers for mines and coking plants. Emission standards implemented include Emission Standards for Air Pollutants Produced by Thermal Plants (GB13223-2011), Emission Standards for Air Pollutants Produced by Boilers (GB13271-2014) and Emission Standards for Pollutants Produced by Coking Chemical Industry (GB16171-2012). The emission of nitrogen oxides produced by Bayannur Coking Plant under the Company was up to the standard, while the emission of soot and sulphur dioxide failed to reach the same in a steady manner. Renovation of pollution prevention and treatment facilities has been commenced and is scheduled to be put into trial operation in mid-2017. During the reporting period, save as disclosed above, the common thermal power plants, self-owned power plant and heating boilers in mining areas under the Group are well equipped with pollution prevention and treatment facilities and in stable operation which fulfilled the emission standard.

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

For the environmental protection work of the Group, please refer to the 2016 CSR Report which is disclosed in conjunction with this report.

(IV) Donations

During the reporting period, the Group made external donations of approximately RMB791 million.

Section VI Significant Events (Continued)

XIV. CONVERTIBLE BONDS OF THE COMPANY

Applicable Not applicable





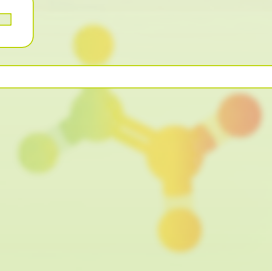
Section VII

Changes in Share Capital and Shareholders



BATILDA

HAZİRAN AYI
MİLLİ GÜNÜ



Section VII Changes in Share Capital and Shareholders

I. CHANGE IN ORDINARY SHARE CAPITAL

(I) Change in the number of ordinary shares

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

	As at 31 December 2016	
	Number	Percentage (%)
I. Shares with selling restrictions	0	0.00
II. Shares without selling restrictions	19,889,620,455	100.00
1. RMB ordinary shares	16,491,037,955	82.91
2. Overseas listed foreign shares	3,398,582,500	17.09
III. Total number of shares	19,889,620,455	100.00

For the year ended 31 December 2016, the Group did not purchase, sell, or redeem any of the Company's securities as defined under the Hong Kong Listing Rules.

The Company has satisfied minimum public float requirement under Rule 8.08 of the Hong Kong Listing Rules.

(II) Changes of shares with selling restrictions

Applicable Not applicable

II. ISSUANCE AND LISTING OF SECURITIES

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

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

There was no change in the total number of shares, shareholding structure and assets and liabilities structure of the Company due to bonus issue, capital conversion, placing, issuance of new shares, non-public offering of shares, exercise of warrants, implementation of share options incentive plan, business combination, conversion of convertible bonds, reduction of share capital, listing of shares held by internal employees or otherwise during the reporting period.

(II) Pre-emptive rights

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

Section VII Changes in Share Capital and Shareholders (Continued)

III. SHAREHOLDERS

(I) Total number of shareholders

Total number of shareholders of ordinary shares as at the end of the reporting period (<i>accounts</i>)	208,908
Including: Holders of A shares (including Shenhua Group Corporation) ^{Note}	206,573
Registered holders of H shares	2,335
Total number of ordinary shareholders at the end of last month prior to the date of this annual report (<i>accounts</i>)	201,755
Including: Holders of A shares (including Shenhua Group Corporation)	199,434
Registered holders of H shares	2,321

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

(II) Shareholdings of top ten shareholders and top ten holders of marketable shares (or shareholders not subject to selling restrictions)

Unit: share

Full name of shareholders	Shareholdings of the top ten shareholders				Number shares with selling restrictions	Shares subject to pledge or lock-up		Nature of shareholders
	Increase/decrease during the reporting period	Number of shares held at the end of the reporting period	Percentage (%)	Percentage (%)		Status	Number	
Shenhua Group Corporation Limited	0	14,530,574,452	73.06	0	Nil	N/A	State-owned Overseas	
HKSCC NOMINEES LIMITED	407,620	3,390,466,096	17.05	0	Unknown	N/A	corporate	
China Securities Finance Corporation Limited	13,847,602	569,895,835	2.87	0	Nil	N/A	Others	
Central Huijin Asset Management Ltd.	0	110,027,300	0.55	0	Nil	N/A	State-owned Overseas	
Hong Kong Securities Clearing Company Limited	22,698,660	29,999,534	0.15	0	Nil	N/A	corporate	
Bank of China Limited – China Merchants Fengqing Flexible Configuration Hybrid Initiated Securities Investment Fund	-2,206,906	22,952,488	0.12	0	Nil	N/A	Others	
National Social Security Fund 108 Portfolio	17,029,796	17,029,796	0.09	0	Nil	N/A	State-owned	
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-end Index Securities Investment Fund	152,393	14,648,826	0.07	0	Nil	N/A	Others	
Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund	-931,960	13,082,927	0.07	0	Nil	N/A	Others	
Agricultural Bank of China Limited – Fullgoal CSI State-owned Enterprises Reform Index Classification Securities Investment Fund	12,640,466	12,640,466	0.06	0	Nil	N/A	Others	

Section VII Changes in Share Capital and Shareholders (Continued)

Shareholdings of top ten shareholders without selling restrictions

Name of shareholders	Number of shares without selling restrictions	Type and number of shares	
		Type	Number
Shenhua Group Corporation Limited	14,530,574,452	RMB ordinary shares	14,530,574,452
HKSCC NOMINEES LIMITED	3,390,466,096	Overseas listed foreign shares	3,390,466,096
China Securities Finance Corporation Limited	569,895,835	RMB ordinary shares	569,895,835
Central Huijin Asset Management Ltd.	110,027,300	RMB ordinary shares	110,027,300
Hong Kong Securities Clearing Company Limited	29,999,534	RMB ordinary shares	29,999,534
Bank of China Limited – China Merchants Fengqing Flexible Configuration Hybrid Initiated Securities Investment Fund	22,952,488	RMB ordinary shares	22,952,488
National Social Security Fund 108 Portfolio	17,029,796	RMB ordinary shares	17,029,796
Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-end Index Securities Investment Fund	14,648,826	RMB ordinary shares	14,648,826
Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund	13,082,927	RMB ordinary shares	13,082,927
Agricultural Bank of China Limited – Fullgoal CSI State-owned Enterprises Reform Index Classification Securities Investment Fund	12,640,466	RMB ordinary shares	12,640,466
Statement on the connected relationships among the above shareholders or whether they are parties acting in concert	Both of HKSCC Nominees Limited and Hong Kong Securities Clearing Company Limited are wholly-owned subsidiaries of Hong Kong Exchanges and Clearing Limited; the custodian bank of both Industrial & Commercial Bank of China – Shanghai Index 50 Trading Open-end Index Securities Investment Fund and Industrial & Commercial Bank of China Limited – China Southern Consumption Vitality Flexible Allocation Hybrid Initiated Securities Investment Fund is the Industrial & Commercial Bank of China Limited. Saved as disclosed above, the Company is not aware of any connected relationships between the top ten shareholders not subject to selling restrictions and the top ten shareholders, and whether they are parties acting in concert as defined in the Measures for Administration of Acquisition of Listed Companies.		
Statement on holders of preference shares with voting rights restored and number of shares held	N/A		

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

Section VII Changes in Share Capital and Shareholders (Continued)

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

As at 31 December 2016, persons set out in the table below had an interest and/or short position in the shares or underlying shares of the Company which is required to be recorded in the register of equity interests and/or short positions pursuant to section 336 of Part XV of the Securities and Futures Ordinance (the "SFO", Chapter 571 of the Laws of Hong Kong):

No.	Name of shareholders	Capacity	H shares/ A shares	Nature of interest	Number of H shares/ A shares held	Percentage of H shares/ A shares over total issued H shares/ A shares respectively %	Percentage of total issued share capital of the Company %
1	Shenhua Group Corporation	Beneficial owner	A shares	N/A	14,530,574,452	88.11	73.06
2	BlackRock, Inc.	Interest of corporation controlled by the substantial shareholders	H shares	Long position	230,288,205	6.78	1.16
				Short position	1,567,500	0.05	0.01
3	JPMorgan Chase & Co.	Beneficial owner; Investment manager; Trustee (other than a bare trustee); Custodian-corporation/ Approved lending agent	H shares	Long position	181,187,131	5.33	0.91
				Short position	17,734,195	0.52	0.09
				Shares available for lending	101,578,379	2.98	0.51

Notes: (1) Information disclosed above is based on the information available on the website of the Hong Kong Stock Exchange (www.hkex.com.hk).

(2) Among H shares in long position and short position held by BlackRock, Inc., 149,165 H shares in long position and 632,500 H shares in short position involve derivatives, and their type is unlisted derivatives – cash settled.

(3) Among 181,187,131 H shares in long position held by JPMorgan Chase & Co., 74,136,920 H shares are held in its capacity as the beneficial owner, 5,458,028 H shares are held in its capacity as the investment manager, 13,804 H shares are held in its capacity as the trustee (except for bare trustee), 101,578,379 H shares are held in its capacity as the custodian – corporation/approved lending agent. In addition, the following H shares in both long position and short position involve derivatives, including:

- a. 4,806,832 H shares in long position and 2,998,500 H shares in short position: derivatives listed on or traded on the Hong Kong Stock Exchange or traded on the future exchange – physically settled;
- b. 1,241,000 H shares in short position: derivatives listed on or traded on the Hong Kong Stock Exchange or traded on the future exchange – cash settled;
- c. 13,714,465 H shares in long position and 10,833,497 H shares in short position: unlisted derivatives – physically settled;
- d. 431,977 H shares in long position and 2,161,198 H shares in short position: unlisted derivatives – cash settled.

Save as disclosed above, as at 31 December 2016, no other person held any interest and/or short position in the shares or underlying shares of the Company which is required to be recorded in the register to be kept thereunder, or was a substantial shareholder of the Company pursuant to section 336 of Part XV of the SFO.

Section VII Changes in Share Capital and Shareholders (Continued)

IV. CHANGES IN CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

(I) Controlling shareholder

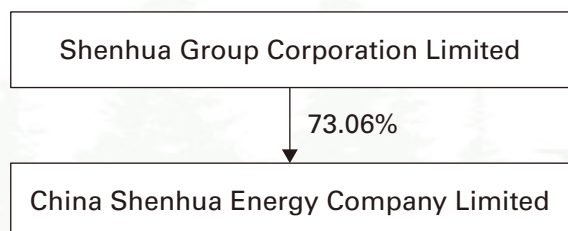
1. Legal person

Name	Shenhua Group Corporation Limited
Legal representative	Zhang Yuzhuo
Date of incorporation	23 October 1995
Principal business	State-owned assets operating activities within the scope authorized by the State Council; investment and management activities in various sectors, including resource products (such as coal), coal liquefaction, coal chemical, power, thermal, port, various transportation, finance, domestic and international trade and logistics, real estate, advanced technology and information consultation and etc.; planning, organizing, coordinating and managing the production and operating activities of the companies in the Shenhua Group in such sectors; and sales of chemical materials and chemical products (excluding hazardous chemicals), textiles, construction materials, machinery, electronic equipment and office equipment. (For projects that are subject to approval pursuant to the law, business operations shall commence in accordance with the business scope approved upon receipt of the approval from relevant authorities.)
Shareholdings in other domestic and overseas listed subsidiaries and associates during the reporting period	As at the end of the reporting period, Shenhua Group Corporation held 143,068,000 shares in China National Chemical Engineering Co., Ltd., representing 2.90% of its total shares.

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

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

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



Section VII Changes in Share Capital and Shareholders (Continued)

(II) De facto controller

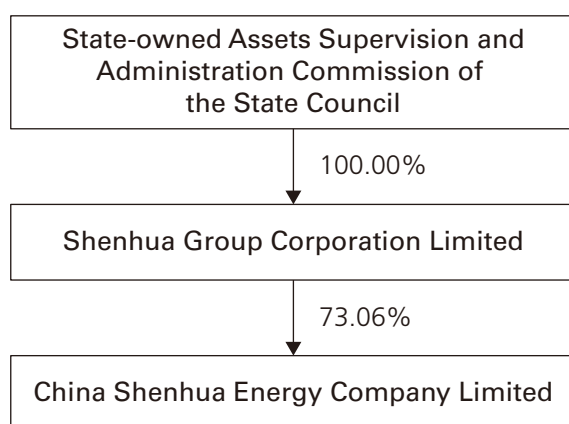
1. Legal person

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

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

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

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



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

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

VI. RESTRICTIONS ON THE REDUCTION IN THE SHAREHOLDING

Applicable Not applicable

On 8 July 2015, Shenhua Group Corporation increased its shareholding of A shares in the Company via the trading system of the Shanghai Stock Exchange, and undertook that it will not dispose of any share it holds in the Company during the period of the implementation of the shareholding increase plan and within the statutory period. During the period between 8 July 2015 and 7 July 2016, Shenhua Group Corporation has increased its shareholding in the Company by 8,727,892 A shares in aggregate, representing 0.04% of the total issued share capital of the Company. Shenhua Group Corporation has observed its undertaking. Please refer to the H shares announcement dated 11 July 2016 and the A shares announcement dated 12 July 2016 of the Company for details.

During the reporting period, Shenhua Group Corporation did not dispose of any share it held in the Company.

Section VIII Directors, Supervisors, Senior Management and Employees

I. CHANGES IN SHAREHOLDING AND REMUNERATION

(I) Changes in shareholding and remuneration

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

Name	Position as at the end of the reporting period	Gender	Age	Date of appointment (from the first appointment date)	Scheduled expiration of term of office	Total remuneration before tax received from the Company during the reporting period	Including performance remuneration received for previous years	Whether received remuneration from shareholders of the Company or associates during the reporting period
						(RMB ten thousand)	(RMB ten thousand)	
Zhang Yuzhuo	Chairman	Male	54	27 June 2014	-	-	-	Yes
	Executive Director			18 June 2010	-			
Ling Wen	Vice Chairman	Male	53	27 June 2014	-	-	-	Yes
	Executive Director			6 November 2004	-			
	President			4 January 2017	-			
Han Jianguo	Executive Director	Male	58	24 May 2011	-	-	-	Yes
	President (Resigned)			27 June 2014	4 January 2017			
Li Dong	Executive Director	Male	56	17 June 2016	-	-	-	Yes
	Senior Vice President			24 May 2011	-			
Fan Hsu Lai Tai	Independent Non-executive Director	Female	71	18 June 2010	-	45.0	-	No
Gong Huazhang	Independent Non-executive Director	Male	70	5 June 2009	-	45.0	-	No
Guo Peizhang	Independent Non-executive Director	Male	67	18 June 2010	-	45.0	-	No
Chen Hongsheng	Non-executive Director	Male	66	25 May 2012	-	-	-	Yes
Zhao Jibin	Non-executive Director	Male	64	17 June 2016	-	-	-	Yes
Zhai Richeng	Chairman of the Supervisory Committee	Male	52	22 August 2014	-	93.0	17.1	No
Zhou Dayu	Supervisor	Male	51	17 June 2016	-	43.6	-	No
Shen Lin	Supervisor	Male	56	22 August 2014	-	91.6	9.6	No
Wang Jinli	Senior Vice President	Male	57	27 September 2013	-	-	-	Yes
Wang Yongcheng	Vice President	Male	54	25 November 2015	-	92.7	18.5	No
Zhang Zifei	Vice President	Male	58	25 November 2015	-	76.6	1.2	No
Wang Shumin	Vice President	Male	54	25 November 2015	-	75.9	1.2	No
Zhang Jiming	Vice President	Male	53	1 July 2016	-	31.4	-	No
Huang Qing	Secretary to the Board	Male	51	6 November 2004	-	101.1	22.0	No
Zhang Kehui	Chief Financial Officer	Female	53	22 January 2007	-	97.9	21.0	No
Total	/	/	/	/	/	838.8	90.6	/

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

- Notes: (1) The remuneration of directors and senior management received from shareholders of the Company for 2016 will be disclosed on the website of Shenhua Group Corporation upon completion of assessment made by the SASAC of the State Council.
- (2) The remuneration package of directors and supervisors for 2016 is subject to approval by the Company at the 2016 annual general meeting; the remuneration package of the senior management was approved by the Board; the remunerations payable include salaries, allowances, social benefit payment, income tax and retirement scheme contributions.
- (3) The remuneration received by Zhou Dayu from the Company covers the period from July to December 2016; the remuneration received by Zhang Jiming from the Company covers the period from August to December 2016; and the remuneration of others received from the Company covers the entire year.
- (4) The personnel mentioned above did not hold any shares in the Company during the reporting period.
- (5) The 2014 first extraordinary general meeting of the Company approved that term of service of the third session of the Board and the supervisory committee is three years (22 August 2014 to 21 August 2017).
- (6) The ages were calculated as at 31 December 2016.

2. Supervisor and senior management resigned during the reporting period

Name	Position before resignation	Gender	Age	Date of appointment	Date of resignation	Total remuneration before tax received from the Company during the reporting period (RMB ten thousand)	Including: performance remuneration received for previous years (RMB ten thousand)	Whether received remuneration from shareholders of the Company during the reporting period
Wu Xiuzhang	Vice President	Male	50	25 November 2015	23 March 2016	45.9	26.4	No
Tang Ning	Shareholder representative supervisor	Male	61	18 June 2010	17 June 2016	5.0	5.0	No
Total	/	/	/	/	/	50.9	31.4	/

- Notes: (1) The remuneration package of the senior management was approved by the Board.
- (2) The personnel mentioned above did not hold any shares of the Company during the reporting period.
- (3) The ages were calculated as at 31 December 2016.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

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

Name	Biographical details
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Chairman and Executive Director

ZHANG Yuzhuo

Born in January 1962, Chinese, a researcher and Academician of the Chinese Academy of Engineering, Dr. Zhang has extensive experience in corporate management and professional management in the coal industry in China. He received a Ph.D. degree from the University of Science and Technology of Beijing in 1989, and conducted postdoctoral studies and research in clean coal technology at the University of Southampton in the UK and Southern Illinois University in the USA from 1992 to 1996.

Dr. Zhang has served as the chairman and an executive director of the third session of the Board of the Company since August 2014, director of Shenhua Group Corporation since December 2008, and chairman for Shenhua Group Corporation since May 2014.



Dr. Zhang served as the chairman of China Shenhua Coal Liquefaction Company Limited from 2003 to 2010, chairman of Shenhua Hong Kong Limited from 2005 to 2010, general manager of Shenhua Group Corporation from 2008 to 2014, non-executive director of the second session of the Board of the Company from 2004 to 2010, vice chairman of the second session of the Board of the Company from 2011 to 2014, executive director of the second session of the Board of the Company from 2010 to 2014, and chairman of the second session of the Board of the Company from June to August 2014.

Prior to the foregoing, Dr. Zhang had served in various capacities, including non-executive director of the first session of the Board of the Company, deputy general manager of Shenhua Group Corporation, president of the China Coal Research Institute, chairman of China Coal Technology Corporation, chairman of Tiandi Science & Technology Co., Ltd. and deputy general manager of Shandong Yankuang Group Co., Ltd..

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Biographical details
 <p data-bbox="376 790 611 882">Vice Chairman, Executive Director and President</p>	<p data-bbox="667 414 791 443">LING Wen</p> <p data-bbox="667 472 1447 645">Born in February 1963, Chinese, a professor and Academician of Chinese Academy of Engineering, Dr. Ling has extensive management experience in financial institutions and enterprises. He received a Ph.D. degree from Harbin Institute of Technology in 1991, and conducted postdoctoral research in Shanghai Jiao Tong University from 1992 to 1994.</p> <p data-bbox="667 674 1447 817">Dr. Ling has served as the president of the Company since January 2017, a vice chairman and an executive director of the third session of the Board of the Company since August 2014, director of Shenhua Group Corporation since April 2010, and general manager of Shenhua Group Corporation since May 2014.</p> <p data-bbox="667 846 1447 1048">Dr. Ling served as director and deputy general manager of Shenhua Group Corporation from 2010 to 2014, chairman of the Board of Shenhua Finance Company from 2002 to 2014, president of the Company from 2006 to 2014, executive director of the second session of the Board of the Company from 2010 to 2014, and vice chairman of the second session of the Board of the Company from June to August 2014.</p> <p data-bbox="667 1077 1447 1276">Prior to the foregoing, Dr. Ling had served in various capacities, including executive director of the first session of the Board, executive vice president and chief financial officer of the Company, deputy general manager of the International Business Department of the Industrial and Commercial Bank of China, deputy general manager of Industrial and Commercial Bank of China (Asia) Limited and chairman of UB China Business Management Company Limited.</p>
 <p data-bbox="376 1668 584 1697">Executive Director</p>	<p data-bbox="667 1301 826 1330">HAN Jianguo</p> <p data-bbox="667 1359 1447 1503">Born in April 1958, Chinese, a researcher, Dr. Han has extensive experience in the Chinese coal industry, macroeconomics and corporate management. He received a master's degree from Tongji University in 1999, and a Ph.D. degree in Economics from Wuhan University in 2016.</p> <p data-bbox="667 1532 1447 1675">Dr. Han has served as an executive director of the third session of the Board of the Company since August 2014, deputy general manager of Shenhua Group Corporation since August 2003, chief information officer of Shenhua Group Corporation since March 2009, and director of Shenhua Group Corporation since July 2014.</p> <p data-bbox="667 1704 1447 1877">He served as the president of the Company from June 2014 to January 2017, a non-executive director of the first session and second session of the Board of the Company from 2004 to 2011, executive director of the second session of the Board of the Company from 2011 to 2014, and senior vice president of the Company from 2011 to 2014.</p> <p data-bbox="667 1906 1447 2007">Prior to the foregoing, Dr. Han had served in various capacities, including chairman and general manager of Shenhua Coal Trading Company Limited, and division head of the State Development and Planning Commission.</p>

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Biographical details
 <p data-bbox="370 786 646 851">Executive Director and Senior Vice President</p>	<p data-bbox="667 416 762 450">LI Dong</p> <p data-bbox="667 483 1457 640">Born in January 1960, Chinese, a senior engineer with the qualification as a professor, Dr. Li has extensive experience in the management of coal enterprises in China. He obtained a master’s degree from China Europe International Business School in 2005 and a Ph.D. degree from Liaoning Technical University in 2005.</p> <p data-bbox="667 674 1457 797">Dr. Li has served as an executive director of the Company since June 2016, a senior vice president of the Company since May 2011 and vice general manager of Shenhua Group Corporation since August 2006.</p> <p data-bbox="667 831 1457 958">Prior to the foregoing, Dr. Li had served in various capacities, including deputy chief engineer of Shenhua Group Corporation, chairman of Shenhua Zhunge’er Energy Co., Ltd., and head of General Manager’s Office of Shenhua Group Corporation.</p>
 <p data-bbox="370 1361 646 1456">Independent Non-executive Director</p>	<p data-bbox="667 987 858 1021">FAN Hsu Lai Tai</p> <p data-bbox="667 1055 1457 1144">Born in September 1945, Chinese, Ms. Fan has extensive experience in legislative and supervision affairs. She received a master’s degree from the University of Hong Kong in 1973.</p> <p data-bbox="667 1178 1457 1480">Ms. Fan has served as an independent non-executive director of the third session of the Board of the Company since August 2014, independent non-executive director of China COSCO Holdings Company Limited since January 2009, independent non-executive director of China Overseas Land & Investment Ltd. since February 2009, independent non-executive director of COSCO Pacific Limited since May 2011, independent non-executive director of Bank of East Asia Limited since February 2016, and a member of the Standing Committee of the 12th National People’s Congress of China since March 2013.</p> <p data-bbox="667 1514 1457 1570">Ms. Fan served as an independent non-executive director of the second session of the Board of the Company from 2010 to 2014.</p> <p data-bbox="667 1603 1457 1850">Prior to the foregoing, Ms. Fan had served in various capacities, including deputy to the ninth and tenth National People’s Congress of China, member of the Standing Committee of the 11th National People’s Congress, member of Preliminary Working Committee for Preparatory Committee, member of Preparatory Committee, president of the Legislative Council of the Hong Kong Special Administrative Region, director of Career Centre of the University of Hong Kong, and assistant dean of Hong Kong Polytechnic Institute.</p>

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name**Biographical details**

Independent
Non-executive
Director

GONG Huazhang

Born in February 1946, Chinese, a professor-level senior accountant. Mr. Gong graduated from Jiangsu Yangzhou Business School in 1965 and has over 40 years' experience in accounting.

Mr. Gong has served as an independent non-executive director of the third session of the Board of the Company since August 2014. Mr. Gong is also a member of China Valuation Standards Committee, special councilor of China Appraisal Society and consultant of the Accounting Society of China and the Pricing Association of China. Mr. Gong is a part-time professor at Tsinghua University, Nankai University, Xiamen University, Shanghai National Accounting Institute, Xiamen National Accounting Institute and China University of Petroleum (Beijing) and a professor at Beijing National Accounting Institute.

Mr. Gong served as an independent non-executive director of Nanyang Commercial Bank (China) Limited from December 2007 to June 2016 and external director of China National Cereals, Oils and Foodstuffs Corporation from April 2011 to March 2016. Prior to the foregoing, Mr. Gong had served in various capacities, including chief accountant of China National Petroleum Corporation, director of Petrochina Company Limited, chairman of China Petroleum Finance Co., Ltd., an independent non-executive director of the first and second sessions of the Board of the Company.

GUO Peizhang

Independent
Non-executive
Director

Born in August 1949, Chinese, a senior economist, Mr. Guo has extensive experience in macroeconomics and enterprise management. He graduated from Renmin University of China in 1982 with a bachelor's degree.

Mr. Guo has served as an independent non-executive director of the third session of the Board of the Company since August 2014 and independent non-executive director of China Railway Group Limited since June 2014.



Mr. Guo served as an independent Non-executive Director of the second session of the Board of China Shenhua from 2010 to 2014, party member and head of disciplinary inspection panel of China Guodian Corporation from 2005 to 2010, chairman of the supervisory committee of Guodian Power Development Co., Ltd. from 2009 to 2010, and external director of Dongfang Electric Corporation from 2010 to 2015.

Prior to the foregoing, Mr. Guo had served in various capacities, including deputy director and director of the Department of Regional Economic Development of State Development and Planning Commission, and deputy supervisor of the Planning Committee of Xinjiang Autonomous Region.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Biographical details
 <p data-bbox="370 786 638 817">Non-executive Director</p>	<p data-bbox="667 421 877 450">CHEN Hongsheng</p> <p data-bbox="667 483 1457 640">Born in March 1950, Chinese, a senior economist, Mr. Chen has extensive experience in the production, operation and management in the shipping industry. He graduated from Capital University of Economics and Business in 2001 with a postgraduate diploma in business administration.</p> <p data-bbox="667 674 1457 797">Mr. Chen has served as a non-executive director of the third session of the Company since August 2014, external director of Shenhua Group Corporation since February 2012 and of State Development and Investment Corporation since April 2012.</p> <p data-bbox="667 831 1457 1055">Mr. Chen served as a non-executive director of the second session of the Board of the Company from 2012 to 2014, external director of Sinotrans & CSC Holdings Corporation Limited from 2011 to 2016, executive director, chairman of the Board and non-executive director of COSCO Pacific Limited from 2003 to 2010, and non-executive director of China COSCO Holdings Company Limited from 2009 to 2010.</p> <p data-bbox="667 1088 1457 1245">Prior to the foregoing, Mr. Chen had served in various capacities, including chairman of COSCO Shipping Co., Ltd., executive director and general manager of China COSCO Holdings Company Limited, vice president of China Ocean Shipping (Group) Company and general manager of COSCO International Freight Co. Ltd..</p>
 <p data-bbox="370 1648 638 1680">Non-executive Director</p>	<p data-bbox="667 1276 798 1305">ZHAO Jibin</p> <p data-bbox="667 1339 1457 1473">Born in July 1952, Chinese, a senior engineer. Mr. Zhao has extensive experience in business administration and railway transportation administration. He obtained a master's degree from Changchun Institute of Optics and Fine Mechanics in 2000.</p> <p data-bbox="667 1507 1457 1630">Mr. Zhao has served as a non-executive director of the Company since June 2016, an external director of Shenhua Group Corporation since April 2015 and of China National Building Material Group Corporation since December 2014.</p> <p data-bbox="667 1664 1457 1798">Mr. Zhao had served as a deputy general manager of China Mobile Communications Corporation from May 2008 to June 2013 and an independent non-executive director of China South Locomotive and Rolling Stock Corporation Limited from December 2007 to June 2014.</p> <p data-bbox="667 1832 1457 2056">Prior to the foregoing, Mr. Zhao had successively held the posts as the master of Changchun Railway Station, director of Changchun Railway Sub-bureau, director of Hohhot Railway Bureau and Zhengzhou Railway Bureau, the chairman of China Tietong Telecommunications Corporation, deputy to the ninth and tenth National People's Congress, an honorary professor of Beijing Jiaotong University and Changchun University of Science and Technology.</p>

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Biographical details
 <p data-bbox="379 790 582 884">Chairman of the Supervisory Committee</p>	<p data-bbox="662 414 829 448">ZHAI Richeng</p> <p data-bbox="662 481 1447 571">Born in July 1964, Chinese, a senior accountant, Mr. Zhai received a master's degree from China University of Mining and Technology in 2003.</p> <p data-bbox="662 604 1447 728">Mr. Zhai has served as the chairman of the third session of the supervisory committee of the Company since August 2014 and the director of Property Ownership Administration of the Company and Shenhua Group Corporation since June 2016.</p> <p data-bbox="662 761 1447 828">Mr. Zhai served as a general manager of the financial department of Shenhua Group Corporation from November 2004 to June 2016.</p> <p data-bbox="662 862 1447 996">Prior to the foregoing, Mr. Zhai had served in various capacities, including deputy manager of the financial department of Shenhua Group Corporation, director of financial division and chief accountant of Shenhua Zhunge'er Coal Company.</p>
 <p data-bbox="379 1400 502 1433">Supervisor</p>	<p data-bbox="662 1019 813 1052">ZHOU Dayu</p> <p data-bbox="662 1086 1447 1209">Born in October 1965, Chinese, a deputy researcher. Mr. Zhou obtained a bachelor's degree in Economic Management at Peking University in 1986 and a bachelor's degree in International Finance at Peking University in 2001.</p> <p data-bbox="662 1243 1447 1400">Mr. Zhou has served as a supervisor of the Company since June 2016, the general manager of the Capital Operation Department of the Company since March 2016, and the general manager of the Capital Operation Department of Shenhua Group Corporation since March 2016.</p> <p data-bbox="662 1433 1447 1688">Mr. Zhou had been the general manager of the Business Administration Department of the Company from November 2009 to March 2016, and the general manager of the Business Administration Department of Shenhua Group Corporation Limited from November 2009 to March 2016. Prior to the foregoing, Mr. Zhou had successively held the post of the general manager of the Planning Department and a deputy director of the Policy and Law Research Office of Shenhua Group Corporation.</p>

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name

Biographical details



Supervisory

SHEN Lin

Born in May 1960, Chinese, a senior economist, Mr. Shen graduated from Harbin Institute of Technology in 2005 with a master's degree.

Mr. Shen has served as an employee representative supervisor of the third session of the supervisory committee of the Company since August 2014, chief of the Department of Enterprise Culture of the Company since July 2010 and chief of the Department of Party Building of Shenhua Group since July 2010.

Mr. Shen served as a deputy chief of the Department of Enterprise Culture of the Company and deputy chief of the Department of Party Building of the Shenhua Group Corporation from 2009 to 2010.

Prior to the foregoing, Mr. Shen had served for Shenhua Baoshen Railway Co., Ltd. in various positions such as human resource manager, deputy chief economist, chief economist, deputy secretary to the Party committee and secretary to the commission for discipline inspection.



Senior Vice President

WANG Jinli

Born in March 1959, Chinese, a researcher and senior engineer, Dr. Wang has approximately 30 years of operational and managerial experience in the coal industry in China. Dr. Wang received an EMBA Degree from Tsinghua University in 2009 and graduated from Liaoning University of Engineering and Technology with a Ph.D. degree in 2006.

Dr. Wang has served as a senior vice president of the Company since September 2013 and deputy general manager of Shenhua Group Corporation since July 2013.

Dr. Wang had served as a vice president of the Company between 2004 and 2013, and chairman of Shenhua Coal Trading Co., Ltd., a subsidiary of Shenhua Group, and chairman of Shenhua Trading Group Limited, a subsidiary of the Company between 2010 and 2014.

Prior to the foregoing, Dr. Wang had served in various capacities, including chairman of Shenhua Australia Holdings Pty Limited, chairman, general manager and deputy general manager of Shenhua Shendong Coal Company, director of the Changchun Coal Technology Centre and director of the Huichun Coal Mining Bureau.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Biographical details
	<p>WANG Yongcheng</p> <p>Born in April 1962, Chinese, a senior economist, Mr. Wang has extensive experience in business management. He obtained an EMBA degree from Nankai University in 2006.</p> <p>Mr. Wang has been serving as a vice president of the Company since November 2015.</p> <p>Mr. Wang was the chairman of Shenhua Tianhong Trading Co., Ltd. from August 2002 to November 2011. From November 2011 to November 2015, he served as the chairman of Shenhua Logistics Group Corporation Limited.</p> <p>Prior to the foregoing, Mr. Wang had previously served as the deputy manager of the human resources department, the deputy manager in charge of the business development department of Shenhua Group Corporation and the deputy manager of the management administration department of Huaneng Fine Coal Company.</p>
Vice President	<p>ZHANG Zifei</p> <p>Born in May 1958, Chinese, a senior engineer with the qualification as a professor, Mr. Zhang has extensive experience in coal business management. He graduated from Taiyuan University of Technology with a master's degree in 2004.</p> <p>Mr. Zhang has been serving as a vice president of the Company since November 2015 and the chairman (legal representative) of Shenhua Wuhai Energy Company Limited since November 2016.</p>
Vice President	<p>Mr. Zhang served as an employee representative director of Shenhua Group Corporation Limited from July 2014 to April 2016, the chairman of Shenhua Shendong Coal Group Co., Ltd. from June 2011 to November 2015 and the chairman of Shenhua Xinjie Energy Co., Ltd. from January 2015 to November 2015.</p> <p>Prior to the foregoing, Mr. Zhang had previously served as, among others, the chairman of Shenhua Xinjiang Energy Co., Ltd., the assistant to general manager, deputy general manager, deputy director of business development and coordination division and the chief at Dahaize Mine and Bulianta Mine of Shenhua Shendong Coal Company .</p>

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Biographical details
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WANG Shumin



Born in November 1962, Chinese, a senior engineer with the qualification as a professor. Mr. Wang has extensive experience in power business management. He graduated from Northeast Dianli University with a bachelor’s degree in 1985 and obtained an MBA degree from China Europe International Business School in 2005.

Mr. Wang has been serving as a vice president of the Company since November 2015.

Vice President

Mr. Wang served as the general manager of Guohua Power Branch of the Company from December 2010 to November 2015. From December 2010 to March 2013, he served as general manager of Beijing Guohua Power Company Limited. From March 2013 to November 2015, he served as the chairman of Beijing Guohua Power Company Limited.

Prior to the foregoing, Mr. Wang had previously served as the deputy general manager of Guohua Power Branch of the Company as well as the deputy manager of the integrated planning department of North China Power Group Company.

ZHANG Jiming



Born in November 1963, Chinese, a senior engineer. Mr. Zhang has extensive experience in chemical business administration. In 1985, he graduated from Liaoning Petrochemical School.



Mr. Zhang has served as the vice president of the Company since July 2016, and served as the chairman and the general manager of China Shenhua Coal to Liquid and Chemical Co., Ltd. from November 2015 to July 2016.

Vice President

Mr. Zhang served as the president of China Shenhua Coal to Liquid and Chemical Co., Ltd. from August 2012 to November 2015, as a director and a vice president (subsidiary chief level) of China Shenhua Coal to Liquid Co., Ltd. from January 2011 to August 2012.

Prior to the foregoing, Mr. Zhang had successively held the post of the chief economist and the deputy general manager of China Shenhua Coal to Liquid Co., Ltd., the vice director and the director of Liaoyang Petrochemical Branch Company Refinery Plant.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Biographical details
 <p data-bbox="376 792 632 824">Secretary to the Board</p>	<p data-bbox="667 416 826 448">HUANG Qing</p> <p data-bbox="667 483 1447 672">Born in November 1965, Chinese, a senior engineer, Mr. Huang obtained a board secretary certification from the Shanghai Stock Exchange in 2004. Mr. Huang is a member of the Hong Kong Institute of Chartered Secretaries and a senior visiting scholar of the Eisenhower Foundation. Mr. Huang received a master's degree from Guangxi University in 1991.</p> <p data-bbox="667 707 1447 770">Mr. Huang has served as secretary to the Board of the Company and company secretary of the Company since November 2004.</p> <p data-bbox="667 797 1447 958">Prior to the foregoing, Mr. Huang had served in various capacities, including secretary to the chairman of Shenhua Group corporation, deputy director of the General Office of Shenhua Group Corporation, deputy general manager of Hubei Provincial Railway Company and secretary to the deputy governor of the Hubei provincial government.</p>
 <p data-bbox="376 1366 622 1397">Chief Financial Officer</p>	<p data-bbox="667 994 836 1025">ZHANG Kehui</p> <p data-bbox="667 1061 1447 1214">Born in February 1963, Chinese, a researcher, a certified accountant in China as well as a fellow of certified public accountants of Australia (FCPA), Dr. Zhang has extensive experience in financial management and received a Ph.D. degree from Research Institute for Fiscal Science, Ministry of Finance of the PRC in 2014.</p> <p data-bbox="667 1249 1447 1339">Dr. Zhang has served as the chief financial officer of the Company since January 2007, and chairman of Shenhua Finance Company, a subsidiary of the Company, since August 2014.</p> <p data-bbox="667 1375 1447 1527">Prior to the foregoing, Dr. Zhang had served in various capacities, including head of internal control and audit department of the Company, deputy manager of the financial department of Shenhua Group Corporation and assistant to the general manager of Shuohuang Railway Development Company Limited.</p>

The directors and supervisors of the Company have performed their duties in accordance with the requirements of the Articles of Association, Rules of Procedure of Board Meeting and Rules of Procedure of the Supervisory Committee Meeting of the Company.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Under the leadership of the Board, the senior management is responsible for business operation of the Company. President Ling Wen is responsible for the Board and exercises his responsibilities as the President in accordance with the requirements of the Articles of Association. Senior Vice President Li Dong is in charge of coal production, safety supervision as well as environmental protection and energy conservation. Senior Vice President Wang Jinli is in charge of production operations and organization, sale of coal as well as the management of railways, ports and shipment transportation. Vice President Wang Yongcheng is in charge of the materials procurement business. Vice President Zhang Zifei is assisting Li Dong in the management of coal production and safety supervision. Vice President Wang Shumin is in charge of the power generation business and tasks on social responsibilities. Vice President Zhang Jiming is in charge of the coal chemical business. Secretary to the Board Huang Qing is in charge of duties of the secretary to the Board; and Chief Financial Officer Zhang Kehui is in charge of finance related works.

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

Applicable Not applicable

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

(I) Positions held in the shareholders of the Company

Name	Name of shareholder	Position	Commencement of term of office	Expiry of term of office
Zhang Yuzhuo	Shenhua Group Corporation	Chairman	May 2014	–
Ling Wen	Shenhua Group Corporation	Director	April 2010	–
Han Jianguo	Shenhua Group Corporation	General manager	May 2014	–
		Director	July 2014	–
		Deputy general manager	August 2003	–
Li Dong	Shenhua Group Corporation	Chief information officer	March 2009	–
		Deputy general manager	August 2006	–
Chen Hongsheng	Shenhua Group Corporation	External director	February 2012	–
Zhao Jibin	Shenhua Group Corporation	External director	April 2015	–
Zhai Richeng	Shenhua Group Corporation	Director of Property Ownership Administration	June 2015	–
Zhou Dayu	Shenhua Group Corporation	General manager of Capital Operation Department	March 2016	–
Shen Lin	Shenhua Group Corporation	General manager of Department of Party Building	July 2010	–
Wang Jinli	Shenhua Group Corporation	Deputy general manager	July 2013	–
Zhang Zifei	Shenhua Group Corporation	Employee representative director	July 2014	April 2016
	Shenhua Wuhai Energy Company Limited	Chairman (legal representative)	November 2016	–

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

(II) Positions held in other entities

Name	Name of shareholder	Position	Commencement of term of office	Expiry of term of office
Fan Hsu Lai Tai	COSCO Pacific Limited	Independent non-executive director	January 2009	–
	China Overseas Land & Investment Limited	Independent non-executive director	February 2009	–
	China COSCO Holdings Company Limited	Independent non-executive director	May 2011	–
	Bank of East Asia Limited	Independent non-executive director	February 2016	–
Gong Huazhang	Nanyang Commercial Bank (China) Limited	Independent non-executive director	December 2007	June 2016
Guo Peizhang	COFCO Corporation	External director	April 2011	March 2016
	China Railway Group Limited	Independent non-executive director	June 2014	–
Chen Hongsheng	SINOTRANS & CSC Holdings Co., Ltd.	External director	December 2011	February 2016
	State Development & Investment Corp.	External director	April 2012	–
Zhao Jibin	China National Building Material Group Corporation	External director	December 2014	–

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures for the remuneration of directors, supervisors and senior management

The remuneration package of directors and supervisors was submitted to the general meeting for approval after consideration and approval by the Remuneration Committee and the Board, and the remuneration package of senior management was submitted to the Board for approval after consideration and approval by the Remuneration Committee.

Basis for determining the remuneration of directors, supervisors and senior management

The remuneration package of relevant directors and supervisors was proposed by the Company in accordance with international and domestic practices and with reference to the remuneration of directors and supervisors of large-scale listed companies in China.

The remuneration package of senior management of the Company was formulated by the Company in accordance with Provisional Measures for the Administration of the Annual Remuneration of the Senior Management.

Remuneration payable for remuneration of directors, supervisors and senior management

Please refer to “Changes in shareholding and remuneration” in this section

Total remuneration actually obtained by all directors, supervisors and senior management at the end of the reporting period

Please refer to “Changes in shareholding and remuneration” in this section

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

IV. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Changes during the reporting period

Name	Position	Particular of movements	Reason for the change
Li Dong	Executive Director	Elected	Passed the election at the annual general meeting on 17 June 2016
Zhao Jibin	Non-executive Director	Elected	Passed the election at the annual general meeting on 17 June 2016
Zhou Dayu	Shareholder representative supervisor	Elected	Passed the election at the annual general meeting on 17 June 2016
Zhang Jiming	Vice President	Appointed	Approved at the 17th meeting of the third session of the Board on 1 July 2016
Wu Xiuzhang	Vice President	Resigned	Resigned on 23 March 2016 due to work change
Tang Ning	Shareholder representative supervisor	Resigned	Resigned on 17 June 2016 due to age

(II) Changes after the reporting period

Name	Position	Particular of movements	Reason for the change
Ling Wen	President	Appointed	Approved at the 22nd meeting of the third session of the Board on 4 January 2017
Han Jianguo	President	Resigned	Resigned on 4 January 2017 due to adjustment of work arrangements

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

Applicable Not applicable

VI. OTHER SIGNIFICANT MATTERS

As at 31 December 2016, none of the directors, supervisors or member of the senior management had any interest or short position in the shares or underlying shares of the Company or of any its associated corporations within the meaning of Part XV of the SFO (Chapter 571 of the Laws of Hong Kong).

The securities transactions of the directors of the Company have been carried out in accordance with the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 of the Hong Kong Listing Rules. The Model Code is also applicable to the supervisors and senior management of the Company. The directors, supervisors or senior management have confirmed that they have fully complied with the Model Code in 2016 or during their terms of office.

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

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

When considering any matters or transactions at any board meeting, the directors are required to declare any direct or indirect interests and recuse themselves where appropriate. Saved as their own service contracts and the Mutual Coal Supply Agreement, the Mutual Supplies and Services Agreement, the Financial Services Agreement and the Agreement on Asset and Business Entrusted Management Services dated 24 March 2016, all of which were entered into between China Shenhua and Shenhua Group, the Transportation Service Framework Agreement entered into between China Shenhua and Taiyuan Railway Bureau on 24 March 2016 and the Shenhua Guohua Ningdong Power Generation Co., Ltd. JV Agreement entered into among China Shenhua, Zheneng Group and Shenhua Ningxia Coal on 20 July 2016, none of the directors and supervisors of the Company has any material personal interests, directly or indirectly, in material contracts entered into by the Company or any of its subsidiaries in 2016 and subsisting during or at the end of the year of 2016; the directors and supervisors of the Company have confirmed that they and their associates have not entered into any connected transaction with the Company and its subsidiaries.

The Company has entered into service contracts with all of its directors and supervisors. None of the directors or supervisors has entered into or proposed to enter into any service contract with members of the Group which cannot be terminated by the Group within one year without any compensation (other than the statutory compensation). The Company has maintained appropriate liability insurance for its directors, supervisors and senior management.

Other than their working relationships in the Company, none of the directors, supervisors or the senior management has any financial, business or family relationship or any relationship in other material aspects with each other. For the year ended 31 December 2016, the Company had not granted any equity securities or warrants to its directors, supervisors and senior management or their respective spouses or children under the age of 18.

VII. EMPLOYEES OF THE GROUP

(I) Employees

Number of current employees of the headquarter of the Company (<i>Number of person</i>)	674
Number of current employees of the branches/subsidiaries of the Company (<i>Number of person</i>)	90,208
Total number of current employees of the Group (<i>Number of person</i>)	90,882
Number of retired employees in respect of which the Company and subsidiaries bore cost (<i>Number of person</i>)	12,722

Section VIII Directors, Supervisors, Senior Management and Employees (Continued)

Function

Function	Number of person
Operation and repair	56,155
Management and administration	15,317
Finance	1,850
Research and development	2,468
Technical support	10,518
Sales and marketing	1,062
Others	3,512
Total	90,882

Education Level

Education Level	Number of person
Postgraduate and above	2,941
University graduate	28,873
College graduate	24,553
Specialized secondary school graduate	13,470
Graduate of technical school, high school and below	21,045
Total	90,882

(II) Remuneration policy

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

(III) Training program

The Company has established a training system with different levels and channels to provide the employees with appropriate training in job skills, safe production and group management etc. During 2016, the accrued capital used for training was approximately RMB0.139 billion. The number of attendances in training was approximately 0.9457 million with training hours of approximately 3.93 million hours in aggregate. For details, please refer to the 2016 CSR Report of the Group.

(IV) Outsourced Work

Total number of working hours of outsourced work	Approximately 50.845 million hours
Total remuneration paid for outsourced work	RMB2 billion

Section IX Corporate Governance and Corporate Governance Report

I. CORPORATE GOVERNANCE

(I) Compliance with domestic regulatory requirements

During the reporting period, there was no material difference between the corporate governance of the Company and the relevant rules and requirements of the CSRC.

(II) Compliance with the Corporate Governance Code

The Board is responsible for implementing good corporate governance of the Company. The Company has been in compliance with the requirements of corporate governance policies as set out in Appendix 14 of the Hong Kong Listing Rules to establish its own system of corporate governance. As of 31 December 2016, the Company has been in full compliance with the provisions and most of the recommended best practices as specified therein. For the terms of reference of the Board and the Board Committees to perform duties under the Corporate Governance Code, please refer to the Articles of Association, Rules of Procedure of the Board and rules of procedure of the Board Committees, which have been published on the websites of the stock exchanges where the Company is listed and on the Company's website.

The convening, voting and disclosure procedures of board meetings of the Company, rules of procedure of the Board and procedures for nomination and appointment of directors are in compliance with relevant requirements. The Board is a standing decision-making body of the Company, is accountable to the shareholders' general meeting and exercises its authority in accordance with the provisions under Article 128 of the Articles of Association and relevant applicable regulatory requirements. The management comprising the President and other senior management members is a standing executive body of the Company, is accountable to the Board and exercises its authority in accordance with the provisions under Article 146 of the Articles of Association and relevant applicable regulatory requirements. The Articles of Association sets out the respective duties of the Chairman of the Board and the President in detail. The Chairman of the Board and the President of the Company is Dr. Zhang Yuzhuo and Dr. Ling Wen, respectively.

The Board of the Company has set out the board diversity policy and members of the Board constituted in the Company are from a variety of backgrounds, which guarantees the rationality and reasonableness of decisions made by the Board. Members of the Board are individuals from various domestic and overseas industries, including one female director. The number of non-executive directors is over half of all directors. Each director's knowledge base and field of expertise are professional and complementary in the overall board structure.

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

Section IX Corporate Governance and Corporate Governance Report (Continued)

II. GENERAL MEETINGS

1. Shareholders' rights

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

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

The Company discloses information in strict compliance with the listing rules of its places of listing. The Company makes its investor relations hotline, fax and email available. The Company has established an effective communication channel with shareholders through an information disclosure system and an investor reception system.

2. Convening of General Meetings during the Reporting Period

Meetings	Date	Inquiry index for the designated website for publishing the voting results	Date of disclosure of the publication of the voting results
2015 Annual General Meeting	17 June 2016	The website of the Shanghai Stock Exchange	18 June 2016

All the resolutions tabled at the general meeting above were passed. The voting results were disclosed on the website of the Hong Kong Stock Exchange on 17 June 2016 and the website of the Shanghai Stock Exchange on 18 June 2016.

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

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

Section IX Corporate Governance and Corporate Governance Report (Continued)

III. PERFORMANCE OF DUTIES OF THE BOARD

(I) Attendance at Board meetings and general meetings

Name of director	Independent director or not	Required attendance at Board meetings this year	Attendance at Board meetings				Absent at two meetings in a row	Attendance at general meetings
			Attendance in Person	Attendance by written resolution	Attendance by proxy	Absence		
Zhang Yuzhuo	No	7	7	1	0	0	No	1/1
Ling Wen	No	7	6	1	1	0	No	1/1
Han Jianguo	No	7	7	1	0	0	No	1/1
Li Dong	No	4	4	1	0	0	No	1/1
Fan Hsu Lai Tai	Yes	7	5	1	2	0	No	1/1
Gong Huazhang	Yes	7	7	2	0	0	No	1/1
Guo Peizhang	Yes	7	7	1	0	0	No	1/1
Chen Hongsheng	No	7	7	1	0	0	No	1/1
Zhao Jibin	No	4	4	1	0	0	No	1/1

Note: Li Dong and Zhao Jibin were elected as an executive director and a non-executive director, respectively, at the 2015 Annual General Meeting held on 17 June 2016.

Number of Board meetings held during the year	7
Including: Number of meetings held on-site	5
Number of meetings held by correspondence	1
Number of meetings held on-site with correspondence	1

In 2016, the Board of the Company held a total of seven meetings, at which all the resolutions tabled were passed. Details of the meetings are as follows:

No.	Name	Date	Methods
1	The 14th meeting of the third session of the Board	29 January 2016	On-site
2	The 15th meeting of the third session of the Board	24 March 2016	On-site
3	The 16th meeting of the third session of the Board	29 April 2016	On-site
4	The 17th meeting of the third session of the Board	1 July 2016	Correspondence
5	The 18th meeting of the third session of the Board	26 August 2016	On-site
6	The 19th meeting of the third session of the Board	28 October 2016	On-site
7	The 20th meeting of the third session of the Board	23 December 2016	On-site with correspondence

Section IX Corporate Governance and Corporate Governance Report (Continued)

(II) Performance of duties of independent directors

During the reporting period, the Company had three independent non-executive directors, among whom Mr. Gong Huazhang is an accounting professional. The Company has received written confirmation from each of the independent non-executive directors confirming their independence. The Company is of the view that all of the independent non-executive directors are independent. The number and background of the independent directors are in compliance with the requirements of the listing rules of the places of listing.

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

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

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

Dissenting views of independent directors on matters of the Company:

Applicable Not applicable

Section IX Corporate Governance and Corporate Governance Report (Continued)

(III) Others

Implementation of resolutions passed at the general meetings by the Board in 2016:

No.	General Meeting	Subject Matter	Status
1	2015 Annual General Meeting	To approve the profit distribution plan of the Company for the year 2015 and authorize a committee comprising of chairman, vice chairman and president, all being directors of the Company, to implement the profit distribution plan.	Implementation of 2015 profit distribution plan was completed in the third quarter of 2016.
2	2015 Annual General Meeting	To approve the appointment of auditors for the year 2016 and authorize a committee comprising of chairman, vice chairman, president, all being directors of the Company, and chairman of the Audit Committee to determine the remuneration of the auditors.	For details of the appointment and remuneration of auditors for the year 2016, please refer to the section headed "Significant Events" of this report.
3	2015 Annual General Meeting	To approve the Mutual Coal Supply Agreement entered into between the Company and Shenhua Group and the caps of the transactions for 2017–2019 agreed thereunder and authorize a committee comprising of chairman, vice chairman, president, all being directors of the Company, and chairman of the Audit Committee to deal with, at its absolute discretion, relevant matters relating to the signing of such agreement.	For details of the Mutual Coal Supply Agreement, please refer to the section headed "Significant Events" of this report.
4	2015 Annual General Meeting	To approve the Mutual Supplies and Services Agreement entered into between the Company and Shenhua Group and the caps of the transactions for 2017–2019 agreed thereunder and authorize a committee comprising of chairman, vice chairman, president, all being directors of the Company, and chairman of the Audit Committee to deal with, at its absolute discretion, relevant matters relating to the signing of such agreement.	For details of the Mutual Supplies and Services Agreement, please refer to the section headed "Significant Events" of this report.
5	2015 Annual General Meeting	To approve the Financial Services Agreement entered into between the Company and Shenhua Group and the caps of the transactions for 2017–2019 agreed thereunder and authorize a committee comprising of chairman, vice chairman, president, all being directors of the Company, and chairman of the Audit Committee to deal with, at its absolute discretion, relevant matters relating to the signing of such agreement.	For details of the Financial Services Agreement, please refer to the section headed "Significant Events" of this report.

Section IX Corporate Governance and Corporate Governance Report (Continued)

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

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

Committee	The third session	
	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.

Section IX Corporate Governance and Corporate Governance Report (Continued)

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.

Section IX Corporate Governance and Corporate Governance Report (Continued)

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.

V. THE SUPERVISION OPINION OF THE SUPERVISORY COMMITTEE

During the reporting period, the Supervisory Committee did not have any dissenting view over the matters supervised by the Supervisory Committee.

VI. EXPLANATION OF INDEPENDENCE AND COMPETITION

China Shenhua has an independent and complete business system as well as a market-oriented self-operation capability. The Company is independent from its controlling shareholder in terms of business, personnel, assets, organization and finance.

As a transitional measure for the prevention of competition, the Company was entrusted by Shenhua Group Corporation upon the completion of relevant procedures to provide daily operation management services for existing assets and businesses of Shenhua Group. As at the end of the reporting period, the Company engaged three deputy general managers of Shenhua Group Corporation as president and senior vice presidents of the Company.

Section IX Corporate Governance and Corporate Governance Report (Continued)

The Company is principally engaged in the production and sale of coal and power, as well as railway, port, shipping transportation and coal-to-olefins. Currently, the major coal, power and olefins products produced by enterprises such as Shenhua Ningxia Coal Co., Ltd. and Shenhua Guoneng Group Company Limited which are the existing and continuing assets of Shenhua Group Corporation, the controlling shareholder of the Company, are similar to those produced by the Company in terms of type and quality, but each company also has its relatively independent regional markets.

The Company and Shenhua Group Corporation entered into a Non-competition Agreement in 2005. Pursuant to the agreement, Shenhua Group has committed not to compete with the Company in respect of the Company's principal businesses whether in or outside of the PRC, and granted the Company an option and pre-emptive right to acquire from Shenhua Group any potential competing business. In 2016, Shenhua Group Corporation strictly abided by its undertakings, and there was no violation of such undertakings.

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

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

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

VIII. INTERNAL CONTROL AND RISK MANAGEMENT

Applicable Not applicable

The Company has established a risk-oriented internal control system. The internal control and risk management procedures of the Company include risk assessment and reporting at the beginning of the year, quarterly major risk monitoring, daily system risk review and specialized supervision and inspection on internal control, and annual internal control evaluation, forming an integrated closed-loop management system. Also, a hierarchical work organizational structure comprising the Board and the Audit Committee, the functional departments of the headquarters and the subsidiaries and branches of the Company was established to safeguard the effective operation of internal control and risk management.

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

Section IX Corporate Governance and Corporate Governance Report (Continued)

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

An internal control supervision and inspection mechanism on was formed to conduct evaluation on internal control on annual basis. Procedures for internal control evaluation include: formulating a proposal for internal control evaluation, establishing a working committee of internal control inspection, conducting self-evaluation on internal control, conducting evaluation on internal control by inspectors, communicating and identifying deficiencies in internal control, rectifying deficiencies in internal control and preparing report on internal control. The Company has evaluated the effectiveness of internal control for 2016 in accordance with the aforementioned procedures.

The 2016 Proposal for Internal Control Evaluation of the Company was considered and approved by the Audit Committee under the Board, and the 2016 Annual Report on Internal Control Evaluation was considered and approved by the Board. The Board and the Audit Committee of the Company are of the view that such inspection and supervision mechanism is able to evaluate the effectiveness of internal control and risk management operation of the Company.

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

As presented in the 2016 Annual Self-assessment Report on Internal Control of the Board, no material defects were found in the internal control of financial reporting as at the base date of the Assessment Report on Internal Control, pursuant to the identification of material defects in the internal control over the financial reporting of the Company. The Board is of the opinion that the Company has maintained effective internal control over its financial reporting in all material aspects in accordance with the requirements under the Enterprise Internal Control Normative System and relevant regulations and its supplementary guidelines as well as other regulatory requirements on internal control. Based on the identification of material defects in the internal control over non-financial reporting of the Company, no material defects were identified by the Company in the internal control over non-financial reporting as at the base date of the Assessment Report on Internal Control. Nothing that would affect the evaluation result of the effectiveness of internal control occurred from the base date of the Assessment Report on Internal Control to the date of issuance of the Assessment Report on Internal Control.

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

Section IX Corporate Governance and Corporate Governance Report (Continued)

Material defects in the internal control during the reporting period:

Applicable Not applicable

IX. DESCRIPTION OF THE AUDIT REPORT ON INTERNAL CONTROL

Deloitte Touche Tohmatsu Certified Public Accountants LLP, engaged by the Company, has issued the standard unqualified Audit Report on Internal Control. The Audit Report on Internal Control is of the opinion that as at 31 December 2016, China Shenhua had maintained effective internal control over its financial reporting in all material aspects in accordance with the Basic Standard for Enterprise Internal Control and the relevant requirements. The above audit opinions are in line with the opinions set out in the Self-assessment Report of the Board.

Please refer to the relevant announcement disclosed by the Company on the website of the Shanghai Stock Exchange on 18 March 2017 for the 2016 Assessment Report on Internal Control and Audit Report on Internal Control.

Section X Supervisory Committee’s Report

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

I. PERFORMANCE OF DUTIES OF THE SUPERVISORY COMMITTEE

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

In 2016, the Supervisory Committee held five meetings in total.

Meeting	Date	Venue	Method of Meeting	Attendance of supervisors	Subject matter	Poll results
The 7th meeting of the third session of the Supervisory Committee	29 January	Beijing	In writing	All	Resolution on the proposed provisions for impairment of assets of the Company	Passed unanimously
The 8th meeting of the third session of the Supervisory Committee	24 March	Beijing	On-site	All	Resolution on the 2015 annual report of the Company	Passed unanimously
					Resolution on the 2015 CSR report of the Company	Passed unanimously
					Resolution on the 2015 financial report of the Company	Passed unanimously
					Resolution on the 2015 profit distribution plan of the Company	Passed unanimously
					Resolution on the Special Report on Deposit and Actual Use of the Proceeds of the Company	Passed unanimously
					Resolution on the 2015 Assessment Report on Internal Control of the Company	Passed unanimously
					Resolution on the Supervisory Committee’s report of the Company for the year 2015	Passed unanimously
The 9th meeting of the third session of the Supervisory Committee	29 April	Beijing	On-site	All	Resolution on the nomination of candidates for supervisors to the Annual General Meeting for the year 2015	Passed unanimously
					Resolution on the 2016 first quarterly report of the Company	Passed unanimously
The 10th meeting of the third session of the Supervisory Committee	26 August	Beijing	On-site	All	Resolution on the 2016 first quarterly financial report of the Company	Passed unanimously
					Resolution on the 2016 interim report of the Company	Passed unanimously
The 11th meeting of the third session of the Supervisory Committee	28 October	Beijing	On-site	All	Resolution on the 2016 interim financial report of the Company	Passed unanimously
					Resolution on the 2016 third quarterly report of the Company	Passed unanimously
					Resolution on the 2016 third quarterly financial report of the Company	Passed unanimously

Section X Supervisory Committee's Report (Continued)

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

The Supervisory Committee is of the opinion that the Board and the management of the Company have acted in strict accordance with the Company Law, the Articles of Association and the relevant regulations of the jurisdiction where the Company is listed, performed their duties with integrity and diligence and conscientiously implemented the resolutions of, and exercised the power granted by the general meetings; and that the decisions and operations are in compliance with the laws and regulations and the Articles of Association.

During the reporting period, the Supervisory Committee is not aware of any act committed by the Board and the management of the Company during their performance of duties which were in breach of laws, regulations and the Articles of Association or prejudicial to the interests of the Company.

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

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

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

The acquisition and disposal of the assets of the Company were based on fair and reasonable prices and no insider trading has been identified. The transactions do not prejudice the interests of shareholders and do not incur any loss of assets of the Company.

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

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

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

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

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

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

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

Section XI Investor Relations

In 2016, China Shenhua attached great importance to and make proactive efforts on investor relations works. With maintenance of an effective channel, provision of quality services and concerns on popular topics, the Company attained the trust from the market, and enhanced investors' confidence.

I. KEEPING ON MAINTAINING FREQUENT COMMUNICATION AND MAINTAINING AN EFFECTIVE COMMUNICATION CHANNEL

Taking advantage of the opportunity brought by the growing attractiveness of the coal industry in the capital markets, the Company has further stepped up its efforts in investor relations works and has communicated with over 700 analysts, fund managers and minority shareholders through results announcement conferences, roadshows, online forums and other means. We have been able to conduct weekly market research and engage in daily telephone communication except for the black-out period. In particular: communications have been made with over 250 persons at roadshows, over 200 persons at investment forums and over 300 persons during company visits and by conference calls and the Company has held two online forums in May and November, respectively, and a reversal roadshow in July, which has been engaging in honest and sufficient communication with investors and analysts in an on-going fashion.

II. HIGHLIGHTING BUSINESS EXPANSION CHARACTERISTICS AND ADEQUATELY EXPLORING COMPANY'S VALUE

In 2016, the railway transportation network of the Company was basically optimised. In order to adequately utilise the surplus capacity to further enhance railway transportation efficiency as well as profit per share, the Company gradually opened the transportation system to third parties and developed macroscopic logistics business. In investor relations activities, the Company has on one hand kept on attaching paramount significance to clean development measures including green coal mining, transportation and implementation of ultra-low emission for thermal power generation. On the other hand, the Company has introduced its macroscopic logistics system and business concepts to the market to enhance the capital markets' knowledge to this new business of the Company, further strengthen the market image of the Company as a comprehensive energy enterprise, and explore the value of the Company in the capital markets, thereby boosting the confidence of capital markets to the Company's future prospect.

III. PROACTIVELY RESPONDING HOT ISSUES CONCERNED IN THE MARKET AND GUIDING MARKETS TO MAKE JUDGEMENT THAT COMPLIES WITH THE FACTUALITY OF THE COMPANY

Amid drastic changes in industry trend, the Company commenced its investor relations works under the guidance of expectation management in order to enable capital markets to better utilise the fundamentals of the Company. Firstly it carried out deep research on industry changes and policy status and continuously strengthened the communication and exchange with peer companies. Secondly, it kept on optimising the disclosure model of annual operating information of "annual plan + monthly refinement + adjustments during the year" in order to lay a solid foundation for the works on expectation management. Thirdly, it encouraged the participation of all departments within the Company, overcame difficulties. We provided instant and effective information to the markets. Fourthly, it regularly consolidated task details, summarized market feedback and liaised with investors in a timely manner, which guided and realized the synchronization of market valuation and the operation results of the Company.

In 2016, works in relation to capital markets conducted by China Shenhua obtained recognition in different aspects, and received the Award of "2016 CCTV Top 10 Best Listed Company in China".

Section XII Index to Information Disclosure

No.	Disclosure document for A Shares (published on the website of Shanghai Stock Exchange)	Date of publication
1	Announcement of China Shenhua on the Change of the Representatives of the Sponsor	09/01/2016
2	Announcement of China Shenhua on the 2015 Unaudited Balance Sheet and Income Statement of Shenhua Finance Company	19/01/2016
3	Announcement on the Major Operational Data of China Shenhua for December 2015	23/01/2016
4	Preliminary Financial Data of China Shenhua for 2015	30/01/2016
5	Announcement on Resolutions of the 14th Meeting of the third Session of the Board of China Shenhua	30/01/2016
6	Announcement on Resolutions of the 7th Meeting of the Third Session of the Supervisory Committee of China Shenhua	30/01/2016
7	Announcement on Provisions for Asset Impairment on China Shenhua	30/01/2016
8	Announcement of China Shenhua on Adjustments to Electricity Tariffs	03/02/2016
9	Announcement on the Major Operational Data of China Shenhua for January 2016	23/02/2016
10	Announcement on the Major Operational Data of China Shenhua for February 2016	17/03/2016
11	Special Explanation of China Shenhua Energy Company Limited on the Appropriation of Funds by the Controlling Shareholder and Other Related Parties of the Company in 2015	25/03/2016
12	Special Audit Report on Deposit and Use of Proceeds of China Shenhua Energy Company Limited for 2015 issued by China International Capital Corporation Limited and China Galaxy Securities Co., Ltd.	25/03/2016
13	Work Report of the Independent Directors of China Shenhua for the Year 2015	25/03/2016
14	Special Report and Audit Report of China Shenhua on Deposit and Actual Use of Proceeds for 2015	25/03/2016
15	2015 Assessment Report on Internal Control of China Shenhua	25/03/2016
16	Special Report of China Shenhua on Deposit and Actual Use of Proceeds for 2015	25/03/2016
17	2015 CSR Report of China Shenhua	25/03/2016
18	Financial Statements and Audit Report of China Shenhua for the Year Ended 31 December 2015	25/03/2016
19	Announcement on Resolutions of the 15th Meeting of the Third Session of the Board of China Shenhua	25/03/2016
20	Announcement on Resolutions of the 8th Meeting of the Third Session of the Supervisory Committee of China Shenhua	25/03/2016
21	Report on the Performance of Duties by the Audit Committee of the Board of China Shenhua for 2015	25/03/2016
22	Independent Opinion on the Connected Transactions of the 15th Meeting of the Third Session of the Board of China Shenhua by Independent Directors of China Shenhua	25/03/2016
23	Special Explanation and Independent Opinion on the Company's External Guarantee by Independent Non-executive Directors of China Shenhua	25/03/2016
24	Announcement of China Shenhua on the Resignation of Senior Management	25/03/2016
25	Audit Report of China Shenhua on Internal Control for the Year Ended 31 December 2015	25/03/2016
26	Annual Report of China Shenhua	25/03/2016
27	Highlights of the Annual Report of China Shenhua	25/03/2016
28	Announcement on Daily Connected Transactions of China Shenhua	25/03/2016
29	Announcement on the Major Operational Data of China Shenhua for March 2016	26/04/2016
30	First Quarterly Report for the Year 2016 of China Shenhua	30/04/2016
31	H Share Circular of China Shenhua	30/04/2016
32	Announcement on Resolutions of the 16th Meeting of the Third Session of the Board of China Shenhua	30/04/2016
33	Announcement of China Shenhua Regarding Online Discussion Forum for Investors	30/04/2016
34	Notice of the 2015 Annual General Meeting of China Shenhua	30/04/2016
35	Clarification Announcement of China Shenhua	09/05/2016
36	Announcement on the Major Operational Data of China Shenhua for April 2016	26/05/2016
37	Information on the 2015 Annual General Meeting of China Shenhua	28/05/2016
38	Announcement on the Major Operational Data of China Shenhua for May 2016	17/06/2016
39	Legal Opinion on 2015 Annual General Meeting of China Shenhua	18/06/2016
40	Announcement on Resolutions Passed at the 2015 Annual General Meeting of China Shenhua	18/06/2016

Section XII Index to Information Disclosure (Continued)

No.	Disclosure document for A Shares (published on the website of Shanghai Stock Exchange)	Date of publication
41	Announcement on Resignation and Election of Supervisor of China Shenhua	18/06/2016
42	Announcement of China Shenhua on Final Dividend Distribution for 2015	25/06/2016
43	Announcement on Resolutions of the 17th Meeting of the Third Session of the Board of China Shenhua and Changes in Senior Management	02/07/2016
44	Legal Opinion on Shenhua Group Corporation Limited's Increase of Shareholding in China Shenhua Energy Company Limited Issued by Beijing Zhong Lun Law Firm	12/07/2016
45	Announcement on Implementation Results of the Plan on Increase in Shareholding by the Controlling Shareholder of China Shenhua	12/07/2016
46	Announcement of China Shenhua on the Unaudited Balance Sheet and Income Statement of Shenhua Finance Company for the First Half of 2016	15/07/2016
47	H Share Announcement of China Shenhua	21/07/2016
48	Announcement on the Major Operational Data of China Shenhua for June 2016	26/07/2016
49	Preliminary Financial Data of China Shenhua for the First Half of 2016	10/08/2016
50	Announcement on the Major Operational Data of China Shenhua for July 2016	16/08/2016
51	Half-yearly Report for the Year 2016 of China Shenhua	27/08/2016
52	Highlights of the Half-yearly Report for the Year 2016 of China Shenhua	27/08/2016
53	Announcement on Resolutions of the 18th Meeting of the Third Session of the Board of China Shenhua	27/08/2016
54	Independent Opinion on Shenhua Guohua (Indonesia) Jawa Power Generation Co., Ltd.'s Acceptance of Guarantee for Connected Transactions by Shenhua Group Corporation Limited issued by Independent Non-executive Directors of China Shenhua	27/08/2016
55	Announcement of China Shenhua on the Provision of Guarantee to the Wholly-owned Subsidiary by the Controlling Shareholders	27/08/2016
56	Announcement on the Major Operational Data of China Shenhua for August 2016	13/09/2016
57	Announcement on the Major Operational Data of China Shenhua for September 2016	20/10/2016
58	Third Quarterly Report for the Year 2016 of China Shenhua	29/10/2016
59	Announcement on Resolutions of the 19th Meeting of the third Session of the Board of China Shenhua	29/10/2016
60	Announcement of China Shenhua Regarding Online Discussion Forum for Investors	29/10/2016
61	Announcement of China Shenhua on the Provision of Guarantee to Investees by the Wholly-owned Subsidiary	29/10/2016
62	Announcement on the Major Operational Data for October 2016	19/11/2016
63	Announcement of China Shenhua on the Completion of 168-hour Trial Run of Generator No. 1 of Shenhua Guohua Liuzhou Power Plant	23/11/2016
64	Announcement of China Shenhua on the Completion of 168-hour Trial Run of Generator No. 2 of Shouguang Power Plant	03/12/2016
65	Announcement of China Shenhua on the Approval Obtained for Sanhe Power Plant Phase III 1x350MW Expansion Construction Project	07/12/2016
66	Announcement on the Major Operational Data of China Shenhua for November 2016	17/12/2016
67	Announcement of China Shenhua on the Provision of Guarantee to the Wholly-owned Subsidiary by the Controlling Shareholders	24/12/2016
68	Announcement on Resolutions of the 20th Meeting of the Third Session of the Board of China Shenhua	24/12/2016
69	Announcement of China Shenhua on 2017 Annual Business Plan for Financial Derivatives	24/12/2016
70	Announcement of China Shenhua on the Completion of 168-hour Trial Run of Generator No. 2 of Shenhua Guohua Liuzhou Power Plant	31/12/2016

Section XII Index to Information Disclosure (Continued)

No.	Disclosure documents for H Shares (published on the website of Hong Kong Stock Exchange)	Date of publication
1	Overseas Regulatory Announcement	08/01/2016
2	Overseas Regulatory Announcement	18/01/2016
3	Announcement on the Major Operational Data of December 2015	22/01/2016
4	Announcement on Preliminary Financial Data for the Year 2015	29/01/2016
5	Overseas Regulatory Announcement	29/01/2016
6	Overseas Regulatory Announcement	29/01/2016
7	Inside Information Provision for Impairment of Assets	29/01/2016
8	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 January 2016	01/02/2016
9	Overseas Regulatory Announcement	02/02/2016
10	Announcement on the Major Operational Data of January 2016	22/02/2016
11	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 29 February 2016	29/02/2016
12	Notice of Board Meeting	14/03/2016
13	Announcement on the Major Operational Data of February 2016	16/03/2016
14	Overseas Regulatory Announcement	24/03/2016
15	Overseas Regulatory Announcement	24/03/2016
16	Overseas Regulatory Announcement	24/03/2016
17	Changes in Senior Mangement	24/03/2016
18	Announcement of Annual Results for the Year Ended 31 December 2015	24/03/2016
19	Continuing Connected Transactions – Entering into Transportation Service Framework Agreement	24/03/2016
20	Continuing Connected Transactions – Entering into Mutual Coal Supply Agreement	24/03/2016
21	Continuing Connected Transactions – Entering into Mutual Supplies and Services Agreement	24/03/2016
22	Discloseable Transaction Continuing Connected Transactions Entering Into Financial Services Agreement	24/03/2016
23	Proposed Appointment of Director and Supervisor	24/03/2016
24	2015 Annual Report	28/03/2016
25	2015 CSR Report	28/03/2016
26	Clarification Announcement	30/03/2016
27	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 March 2016	31/03/2016
28	Notice of Board Meeting	15/04/2016
29	Announcement on the Major Operational Data of March 2016	25/04/2016
30	Entering into Mutual Coal Supply Agreement, Entering into Mutual Supplies and Services Agreement, Entering into Financial Services Agreement and Proposed Appointment of Director and Supervisor	29/04/2016
31	Notification Letter and Request Form to Registered Holder	29/04/2016
32	Notification Letter and Request Form to Non Registered Holder	29/04/2016
33	Notice of Annual General Meeting	29/04/2016
34	Reply Slip Annual General Meeting	29/04/2016
35	Form of Proxy for Annual General Meeting	29/04/2016
36	Overseas Regulatory Announcement	29/04/2016
37	Overseas Regulatory Announcement	29/04/2016
38	First Quarterly Report for the Year 2016	29/04/2016
39	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 April 2016	03/05/2016
40	Overseas Regulatory Announcement	09/05/2016
41	Announcement on the Major Operational Data of April 2016	25/05/2016
42	Overseas Regulatory Announcement	27/05/2016
43	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 May 2016	05/06/2016
44	Announcement on the Major Operational Data of May 2016	16/06/2016
45	Overseas Regulatory Announcement	17/06/2016
46	Voting Results of 2015 Annual General Meeting	17/06/2016

Section XII Index to Information Disclosure (Continued)

No.	Disclosure documents for H Shares (published on the website of Hong Kong Stock Exchange)	Date of publication
47	Resignation of a Supervisor	17/06/2016
48	Positions Held by Current Directors at the Board and the Board Committees	17/06/2016
49	Overseas Regulatory Announcement	24/06/2016
50	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 June 2016	30/06/2016
51	Positions Held by Current Directors at the Board and the Board Committees	03/07/2016
52	Appointment of Board Committee Members	03/07/2016
53	Changes in Senior Management	03/07/2016
54	Overseas Regulatory Announcement	03/07/2016
55	Announcement on Implementation Result of the Plan On Increase in Shareholding by the Controlling Shareholder	11/07/2016
56	Overseas Regulatory Announcement	11/07/2016
57	Overseas Regulatory Announcement	14/07/2016
58	Establishment of Shenhua Guohua Ningdong Power Generation Co., Ltd.	20/07/2016
59	Announcement on the Major Operational Data of June 2016	25/07/2016
60	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 July 2016	01/08/2016
61	Announcement on Preliminary Financial Data for the First Half of 2016	09/08/2016
62	Overseas Regulatory Announcement	09/08/2016
63	Notice of Board Meeting	12/08/2016
64	Announcement on the Major Operational Data of July 2016	15/08/2016
65	Overseas Regulatory Announcement	26/08/2016
66	Overseas Regulatory Announcement	26/08/2016
67	Overseas Regulatory Announcement	26/08/2016
68	Announcement of Interim Results for the Six Months Ended 30 June 2016	26/08/2016
69	2016 Interim Report	28/08/2016
70	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 August 2016	01/09/2016
71	Notification Letter and Request Form to Registered Holder	02/09/2016
72	Notification Letter and Request Form to Non Registered Holder	02/09/2016
73	Announcement on the Major Operational Data of August 2016	12/09/2016
74	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 September 2016	30/09/2016
75	Notice of Board Meeting	17/10/2016
76	Announcement on the Major Operational Data of September 2016	19/10/2016
77	Overseas Regulatory Announcement	28/10/2016
78	Overseas Regulatory Announcement	28/10/2016
79	Third Quarterly Report for the Year 2016	28/10/2016
80	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 31 October 2016	01/11/2016
81	Announcement on the Major Operational Data of October 2016	18/11/2016
82	Overseas Regulatory Announcement	22/11/2016
83	Monthly Return of Equity Issuer on Movements in Securities for the Month Ended 30 November 2016	30/11/2016
84	Overseas Regulatory Announcement	02/12/2016
85	Overseas Regulatory Announcement	16/12/2016
86	Announcement on the Major Operational Data of November 2016	16/12/2016
87	2017 Annual Business Plan for Financial Derivatives	16/12/2016
88	Overseas Regulatory Announcement	23/12/2016
89	Overseas Regulatory Announcement	23/12/2016
90	Overseas Regulatory Announcement	30/12/2016

Section XIII Independent Auditor's Report and Financial Statements

TO THE SHAREHOLDERS OF CHINA SHENHUA ENERGY COMPANY LIMITED

(Incorporated in The People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Shenhua Energy Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 156 to 241, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Section XIII Independent Auditor's Report and Financial Statements (Continued)

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
<i>Impairment assessment on coal mines related non-current assets</i>	
<p>We identified non-current assets impairment assessment on coal mines related non-current assets as a key audit matter due to significant judgment made by management in determining the recoverable amounts of the corresponding cash-generating units.</p> <p>Owing to oversupply of coals and the unsatisfactory financial performance of certain Group's mines, the management identified certain non-current assets relating to coal mines having impairment indications. The impairment assessment involves management's judgment in certain areas including the discount rate and the underlying cash flows projection based on the future market supply and demand conditions. Any changes in management's judgement may result in significant financial impact to the Group.</p> <p>As set out in Note 15 to the consolidated financial statements, the management concluded that the recoverable amount of each separate cash-generating unit was higher than their carrying value and no impairment provision was required for the current year. The recoverable amounts of each cash-generating unit were determined by value in use method.</p>	<p>Our procedures in relation to impairment assessment on coal mines related non-current assets included:</p> <ul style="list-style-type: none"> • testing the key controls related to the assessment on the carrying value of its non-current assets; • assessing the valuation methodology; • analysing and challenging the reasonableness of significant judgements and estimates built in the underlying cash flows used in management's impairment tests based on our knowledge of the business and industry; • analysing and reviewing the specific discount rates used by management in impairment tests; • evaluating the sensitivity analysis performed by management; • comparing the current year actual results with the 2016 figures included in the prior years forecast; and • reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

OTHER INFORMATION

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

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

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

Section XIII Independent Auditor's Report and Financial Statements (Continued)

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Section XIII Independent Auditor's Report and Financial Statements (Continued)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

17 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	Year ended 31 December	
		2016 RMB million	2015 RMB million
Revenue	5	183,127	177,069
Cost of sales	7	(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	10	(3,078)	(5,856)
Other income		1,379	1,659
Other expenses		(1,511)	(626)
Interest income	8	723	608
Finance costs	8	(5,748)	(5,123)
Share of results of associates		237	428
Profit before income tax		41,253	34,520
Income tax expense	9	(9,283)	(9,561)
Profit for the year	10	31,970	24,959
Other comprehensive income (expense) for the year			
<i>Item that will not be reclassified</i>			
<i>to profit or loss, net of income tax:</i>			
Remeasurement of defined benefit obligations		21	(21)
<i>Items that may be reclassified subsequently</i>			
<i>to profit or loss, net of income tax:</i>			
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

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Continued)

For the year ended 31 December 2016

	Notes	Year ended 31 December	
		2016 RMB million	2015 RMB million
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	14	1.252	0.887

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	31 December 2016 RMB million	31 December 2015 RMB million
Non-current assets			
Property, plant and equipment	15	337,785	339,326
Construction in progress	16	35,220	33,610
Exploration and evaluation assets	17	2,344	2,176
Intangible assets	18	3,018	2,964
Interest in associates	19	5,142	5,113
Available-for-sale investments	20	1,800	1,795
Other non-current assets	21	36,749	34,562
Lease prepayments	22	17,359	16,535
Deferred tax assets	28	3,849	2,674
Total non-current assets		443,266	438,755
Current assets			
Inventories	23	13,341	12,816
Accounts and bills receivable	24	20,573	41,019
Prepaid expenses and other current assets	25	48,792	19,351
Restricted bank deposits	26	6,141	4,611
Time deposits with original maturity over three months		3,428	916
Cash and cash equivalents	27	41,188	42,323
Total current assets		133,463	121,036
Current liabilities			
Borrowings	29	11,811	12,812
Short-term debenture	30	–	4,998
Accounts and bills payable	31	35,156	33,990
Accrued expenses and other payables	32	41,361	47,519
Current portion of medium-term notes	30	19,989	–
Current portion of long-term liabilities	33	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

Consolidated Statement of Financial Position (Continued)

At 31 December 2016

	<i>Notes</i>	31 December 2016 RMB million	31 December 2015 RMB million
Non-current liabilities			
Borrowings	29	58,462	54,179
Medium-term notes	30	4,985	24,955
Bonds	30	10,331	9,651
Long-term liabilities	33	2,451	2,523
Accrued reclamation obligations	34	2,549	2,197
Deferred tax liabilities	28	797	878
Total non-current liabilities		79,575	94,383
Net assets		384,969	363,921
Equity			
Share capital	35	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

The consolidated financial statements on pages 156 to 241 were approved and authorised for issue by the Board of Directors on 17 March 2017, and are signed on its behalf by:

Zhang Yuzhuo
Chairman

Ling Wen
Vice Chairman and President

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

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

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2016

	Equity attributable to equity holders of the Company									
	Share capital <i>RMB</i> <i>million</i> <i>(Note 35)</i>	Share premium <i>RMB</i> <i>million</i> <i>(note (i))</i>	Capital reserve <i>RMB</i> <i>million</i> <i>(note (iii))</i>	Exchange reserve <i>RMB</i> <i>million</i>	Statutory reserves <i>RMB</i> <i>million</i> <i>(note (iii))</i>	Other reserves <i>RMB</i> <i>million</i> <i>(note (iv))</i>	Retained earnings <i>RMB</i> <i>million</i>	Total <i>RMB</i> <i>million</i>	Non- controlling interests <i>RMB</i> <i>million</i>	Total equity <i>RMB</i> <i>million</i>
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 <i>(Note 13)</i>	-	-	-	-	-	-	(14,718)	(14,718)	-	(14,718)
Appropriation of maintenance and production funds <i>(note (iii))</i>	-	-	-	-	5,381	-	(5,381)	-	-	-
Utilisation of maintenance and production funds <i>(note (iii))</i>	-	-	-	-	(3,699)	-	3,699	-	-	-
Appropriation of general reserve <i>(note (iii))</i>	-	-	-	-	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

Notes:

- (i) Share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received upon the global initial public offering of H shares in 2005 and the issue of A shares in 2007.
- (ii) The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets, net of other reserves, transferred from Shenhua Group Corporation Limited ("Shenhua Group") in connection with the Restructuring (as defined in Note 1).

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2016

(iii) Statutory reserves

Statutory surplus reserve

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

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

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

Specific reserve for production and maintenance funds

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

General reserve

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

Discretionary surplus reserve

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

The directors of the Company (the "Directors") have not proposed any appropriation to the discretionary surplus reserve in 2016 and 2015.

(iv) Other reserves

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Year ended 31 December	
	2016 <i>RMB million</i>	2015 <i>RMB million</i>
OPERATING ACTIVITIES		
Profit before income tax	41,253	34,520
Adjustments for:		
Depreciation and amortisation (<i>Note 10</i>)	24,721	23,990
Other gains and losses (<i>Note 10</i>)	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 (<i>Note 8</i>)	(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
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)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

	Year ended 31 December	
	2016 <i>RMB million</i>	2015 <i>RMB million</i>
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. PRINCIPAL ACTIVITIES AND ORGANISATION

Principal activities

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

Organisation

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

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

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

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

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

Immediate parent and ultimate controlling party

At 31 December 2016, the Directors consider the immediate parent and ultimate holding company of the Group to be Shenhua Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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

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

Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2012–2014 Cycle</i>

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.

The Group has applied the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity’s financial position and financial performance.

The Group has applied these amendments retrospectively. The Segment and Other Information has been reordered to Note 6 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. The application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group.

New and revised IFRSs not yet effective and not early adopted

IFRS 9	<i>Financial Instruments¹</i>
IFRS 15	<i>Revenue from Contracts with Customers¹</i>
IFRS 16	<i>Leases²</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions¹</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts¹</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers¹</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to IAS 7	<i>Disclosure Initiative⁴</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses⁴</i>
Amendments to IAS 40	<i>Transfers of Investment Property¹</i>
Amendments to IFRSs	<i>Annual Improvements to IFRS Standards 2014–2016 Cycle⁵</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2017

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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

New and revised IFRSs not yet effective and not early adopted (Continued)

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

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and revised IFRSs not yet effective and not early adopted (Continued)

IFRS 9 Financial Instruments (Continued)

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

IFRS 15 Revenue from Contracts with Customers

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

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

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

New and revised IFRSs not yet effective and not early adopted (Continued)

IFRS 16 Leases

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

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

As disclosed in Note 39.2, total operating lease commitments for the Group as at 31 December 2016 amounted to RMB68 million, the Directors do not expect the application of IFRS 16 would result in significant impact on the Group’s results but it is expected that these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to equity holders of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Except for business combination involving entities under common control, acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation is initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

On acquisition of the investment in an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether there are any indicators that the Group's investment in an associate may be impaired. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss is recognised when the recoverable amount is less the current value of the investment in associates. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs can be measured reliably, revenue is recognised in profit or loss as follows:

- Revenue associated with the sale of coal is recognised when the risks and rewards to the ownership of the goods have been passed to the customer.
- Revenue from sale of power is recognised upon the transmission of electric power to the power grid companies, as determined based on the volume of electric power transmitted and the applicable fixed tariff rates agreed with the respective electric power grid companies annually.
- Revenue from the rendering of railway, port, shipping and other services is recognised upon the delivery or performance of the services.
- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Interest income is recognised as it accrues using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Land using rights under operating leases are presented as lease prepayments in the consolidated statement of financial position and are initially stated at cost and subsequently charged to the profit or loss on the straight-line basis over the lease terms.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than entity's functional currencies (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve, attributed to non-controlling interests as appropriate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to state-managed retirement benefit schemes and a supplemental defined contribution pension plan approved by the government are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before income tax” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are reassessed at the end of each reporting year and are recognised to the extent that it has become probable that future taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment, which consists of freehold land and buildings, mining structures and mining rights, mining related machinery and equipment, and others, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than freehold land and construction in progress, which are subject to impairment assessment) less their residual values over their estimated useful lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment, except for freehold land, and mining structures and mining rights, are depreciated on a straight-line basis at the following rates per annum:

Buildings	10–50 years
Mining related machinery and equipment	5–20 years
Generators related machinery and equipment	20 years
Railway and port	30–45 years
Vessel	10–25 years
Coal chemical related machinery and equipment	10–20 years
Furniture, fixtures, motor vehicles and other equipment	5–20 years

The Directors reviewed the estimated useful lives of the assets annually based on the Group's historical experience with similar assets and taking into account anticipated technological changes.

Construction in progress intended to be used for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining structures and mining rights

The costs of mining structures and mining rights, which include the costs of acquiring and developing mining structures and mining rights, are firstly capitalised as "construction in progress" in the year in which they are incurred and then reclassified to "Mining structures and mining rights" under property, plant and equipment when they are ready for commercial production.

Mining structures and mining rights are depreciated on a units-of-production basis utilising only proved and probable coal reserves in the depletion base.

The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Mining structures and mining rights (Continued)

Stripping costs incurred to develop a mine (or pit) before the production commences or to improve access to the component of the ore body during the production stage are capitalised as part of the cost of constructing the mine (or pit) and subsequently amortised over the life of the mine (or pit) on a units-of-production basis. Stripping costs and secondary development expenditure, mainly comprising costs on blasting, haulage, excavation, etc. incurred during the production stage of the ore body are charged to profit or loss as incurred.

Commercial reserves are proved and probable reserves. Changes in the commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Exploration and evaluation assets

Exploration and evaluation assets comprise costs which are directly attributable to the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Expenditure during the initial exploration preparation stage of a project is charged to profit or loss as incurred. Exploration and evaluation costs, including the costs of acquiring licenses, are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project.

Once the final feasibility study has been completed and a development decision has been taken, accumulated capitalised exploration and evaluation expenditures in respect of an area of interest are transferred to property, plant and equipment. In circumstances when an area of interest is abandoned or management decides it is not commercially viable, any accumulated costs in respect of that area are written off in the period the decision is made.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Obligations for land reclamation

The Group's obligations for land reclamation consist of spending estimates at both surface and underground mines in accordance with the PRC rules and regulations. The Group estimates its liabilities for land reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash spending to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period in which the liability is incurred. The asset is depreciated on the units-of-production method over its expected life and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and the corresponding asset are recognised at the appropriate discount rate.

Costs for restoration of subsequent site damage which is caused on an ongoing basis during production are provided for at their net present values and charged to profit or loss as extraction progresses. Where the costs of site restoration are not anticipated to be significant, they are expensed as incurred.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Intangible assets acquired in a business combination not under common control

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair values at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets within the scope of IAS 39 are classified into the following specific categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables and available-for-sale financial assets ("AFS"). The Group determines the classification of its financial assets at initial recognition based on their nature and purpose. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

The Group's financial assets include financial assets at FVTPL, loans and receivables and AFS financial assets. The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. The Group's debt securities are classified as held for trading as it has been acquired for the purpose of selling in the near term. They are stated at fair values, with any gains or losses arising on remeasurement, net of interest earned, recognised in profit or loss and are included in other gains and losses line item.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts and bills receivable, other receivables, loans and advances to Shenhua Group and fellow subsidiaries, entrusted loans, restricted bank deposits, time deposits with original maturity over three months and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as other categories of financial assets. The Group designated its investments in unlisted shares that are not traded in an active market as AFS financial assets.

As the unlisted equity investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured, it is measured at cost less any identified impairment losses at end of each reporting period. Dividends on the unlisted equity investment are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with the policies set out for "Revenue recognition".

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected. The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables, other receivables, loans and advances to Shenhua Group and fellow subsidiaries and entrusted loans, where the carrying amount is reduced through the use of an allowance account. When accounts receivables, other receivables, loans and advances to Shenhua Group and fellow subsidiaries and entrusted loans are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity instruments

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. The Group determines the classification of its financial liabilities at initial recognition. The Group's financial liabilities including borrowings, accounts and bills payable, other payables, long-term liabilities, short-term debentures, medium-term notes and bonds, are recognised initially at fair value, net of directly attributable transaction costs (if any).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities (Continued)

After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised. The effective interest rate amortisation is included in finance costs in the profit or loss.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The Group's derivative financial instruments represent cross-currency interest rate swaps, and are initially recognised at fair value at the date when the derivative contracts are entered into, and remeasured at fair value at the end of the reporting period, with any gains or losses recognised in profit or loss.

Impairment of tangible and intangible assets other than goodwill

Where an indication of impairment exists, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is charged to the profit or loss as other gains and losses.

An assessment is made at the end of each reporting year as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the year in which it arises.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are critical judgements, apart from those involving estimation (see Note 4.2 below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over Hebei Guohua Dingzhou Power Co., Ltd. ("Dingzhou Power")

Note 43 describes that Dingzhou Power is a subsidiary of the Company although the Company has only 41% ownership interest and voting rights in Dingzhou Power. The remaining 59% of ownership interest and voting rights are owned by two shareholders that are unrelated to the Group as to 19% and 40%, respectively. Details of Dingzhou Power are set out in Note 43.

In making their judgement, the Directors considered that the other shareholders of Dingzhou Power offered the Company, for the right on appointment of the majority members of the board of directors which is the governing body of most of the relevant activities of Dingzhou Power whilst some relevant activities require shareholders' approval. The Company considers it has the practical ability to direct the relevant activities that most significantly affect Dingzhou Power's returns unilaterally. After assessment, the Directors concluded that the Company has sufficiently dominant power over the board of directors of Dingzhou Power and therefore the Company has control over Dingzhou Power.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Coal reserves

Engineering estimates of the Group's coal reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated coal reserves can be designated as "proved" and "probable". Proved and probable coal reserve estimates are updated at regular basis and have taken into account recent production and technical information of each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable coal reserves also changes. This change is considered as a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

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

4.2 Key sources of estimation uncertainty *(Continued)*

Coal reserves *(Continued)*

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment loss. Depreciation rates are determined based on estimated proved and probable coal reserve quantity (the denominator) and capitalised costs of mining structures and mining rights (the numerator). The capitalised cost of mining structures and mining rights are amortised based on the units of coal produced.

Impairment losses

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress and interest in associates, the recoverable amount of the asset needs to be determined. The recoverable amount is the higher of its fair value less costs of disposal and value in use. It is difficult to precisely estimate fair value because quoted market prices for these assets may not be readily available. In determining the value in use, the Group uses all readily available information in determining expected cash flows generated by the cash-generating unit to which the asset belongs and they are discounted to their present value, which requires significant judgement relating to cash flow items such as level of sale volume, selling price, amount of operating costs and future returns.

In considering the impairment losses that may be required for current receivables and other financial assets, future cash flows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables.

Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher or lower than the amount estimated. The carrying amounts of the property, plant and equipment, construction in progress and interest in associates are disclosed in Note 15, 16 and 19, respectively.

Depreciation

Other than the freehold land and mining structures and mining rights, property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives and residual value of the assets regularly based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. The carrying amounts of the property, plant and equipment is disclosed in Note 15.

Deferred tax assets

As at 31 December 2016, deferred tax assets of RMB3,849 million (2015: RMB2,674 million) have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB6,869 million (2015: RMB5,604 million) and deductible temporary differences of RMB5,804 million (2015: RMB5,128 million) due to the unpredictability of future profit streams. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further provision of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal or further provision takes place.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)***4.2 Key sources of estimation uncertainty** *(Continued)***Obligations for land reclamation**

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including development plan of the mines, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate. The carrying amounts of the obligations are disclosed in Note 34.

5. REVENUE

	Year ended 31 December	
	2016 <i>RMB million</i>	2015 <i>RMB million</i>
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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

6. SEGMENT AND OTHER INFORMATION

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM"), including president, senior vice president and chief financial officer, for the purposes of resource allocation and performance assessment, the Group has presented the following six (2015: six) reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (1) Coal operations – which produce coal from surface and underground mines, and the sale of coal to external customers, the power operations segment and the coal chemical operations segment. The Group sells its coal under long-term supply contracts, which allow periodical price adjustments, and at spot market.
- (2) Power operations – which use coal from the coal operations segment and external suppliers, thermal power, wind power, water power and gas power to generate electric power for the sale to coal operations segment and external customers. Electric power is sold to the power grid companies in accordance with planned power output at the tariff rates as approved by the relevant government authorities. Electric power produced in excess of the planned power output is sold at the tariff rate as agreed upon with the respective power grid companies which are generally lower than the tariff rates for planned power output.
- (3) Railway operations – which provide railway transportation services to the coal operations segment, the power operations segment, the coal chemical operations segment and external customers. The rates of freight charges billed to the coal operations segment, the power operations segment, the coal chemical operations segment and external customers are consistent and do not exceed the maximum amounts approved by the relevant government authorities.
- (4) Port operations – which provide loading, transportation and storage services to the coal operations segment and external customers. The Group charges service fees and other expenses, which are reviewed and approved by the relevant government authorities.
- (5) Shipping operations – which provide shipment transportation services to the power operations segment, the coal operations segment and external customers. The rates of freight charges billed to the power operations segment, the coal operations segment and external customers are consistent.
- (6) Coal chemical operations – which use coal from the coal operations segment to first produce methanol and further process into polyethylene and polypropylene, together with other by-products, for sale to external customers. The Group sells its polyethylene at spot market.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

6. SEGMENT AND OTHER INFORMATION (Continued)

6.1 Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results attributable to each reportable segment based on profit before income tax ("reportable segment profit"). Segment profit represents the profit earned by each segment without allocation of head office and corporate items. Inter-segment sales are primarily charged at prevailing market rate which are the same as those charged to external customers. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3.

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 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 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

6.2 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 amounts inter-segment amounts		Consolidated	
	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

6. SEGMENT AND OTHER INFORMATION (Continued)**6.3 Geographical information**

The following table sets out information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, construction in progress, exploration and evaluation assets, intangible assets, 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

6.4 Major customers

Revenue from any individual customer of the Group does not exceed 10% of the Group's revenue. Certain of the Group's customers are entities, which controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities") and collectively considered as the Group's major customer. Revenue from major customer of the Group's coal and power segments represents RMB137,294 million (2015: RMB132,736 million) of the Group's.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

6. SEGMENT AND OTHER INFORMATION (Continued)**6.5 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 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 RMB million	2016 RMB million	2015 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)	(8,239)	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.

7. COST OF SALES

	Year ended 31 December	
	2016 RMB million	2015 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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

8. INTEREST INCOME/FINANCE COSTS

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

9. INCOME TAX EXPENSE

	Year ended 31 December	
	2016 <i>RMB million</i>	2015 <i>RMB million</i>
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 <i>RMB million</i>	2015 <i>RMB million</i>
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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

9. INCOME TAX EXPENSE (Continued)

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 profit tax for the overseas subsidiaries.

10. PROFIT FOR THE YEAR

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

	Year ended 31 December	
	2016 RMB million	2015 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
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 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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executives' remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Year ended 31 December 2016				
	Fees RMB million	Basic salaries, housing and other allowance and benefits in kind RMB million	Discretionary bonuses RMB million	Retirement scheme contributions RMB million	Total RMB million
Chief executive					
Zhang Yuzhuo (<i>note (i)</i>)	-	-	-	-	-
Sub-total	-	-	-	-	-
Executive directors					
Ling Wen (<i>note (i)</i>)	-	-	-	-	-
Han Jianguo (<i>note (ii)</i>)	-	-	-	-	-
Li Dong (<i>note (ii) and note (iii)</i>)	-	-	-	-	-
Sub-total	-	-	-	-	-
Non-executive directors					
Chen Hongsheng (<i>note (i)</i>)	-	-	-	-	-
Zhao Jibin (<i>note (ii) and note (iii)</i>)	-	-	-	-	-
Sub-total	-	-	-	-	-
Independent non-executive directors					
Fan Hsulitai	0.45	-	-	-	0.45
Gong Huazhang	0.45	-	-	-	0.45
Guo Peizhang	0.45	-	-	-	0.45
Sub-total	1.35	-	-	-	1.35
Supervisors					
Zhai Richeng	-	0.45	0.40	0.08	0.93
Zhou Dayu (<i>note (iii)</i>)	-	0.25	0.15	0.04	0.44
Shen Lin	-	0.46	0.38	0.08	0.92
Tang Ning (<i>note (iv)</i>)	-	-	0.05	-	0.05
Sub-total	-	1.16	0.98	0.20	2.34
Total					3.69

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

	Year ended 31 December 2015				
	Fees RMB million	Basic salaries, housing and other allowance and benefits in kind RMB million	Discretionary bonuses RMB million	Retirement scheme contributions RMB million	Total RMB million
Chief executive					
Zhang Yuzhuo (note (i))	–	–	–	–	–
Sub-total	–	–	–	–	–
Executive directors					
Ling Wen (note (i))	–	–	–	–	–
Han Jianguo	–	0.19	0.44	0.10	0.73
Wang Xiaolin (note (v))	–	0.13	0.35	0.06	0.54
Sub-total	–	0.32	0.79	0.16	1.27
Non-executive directors					
Chen Hongsheng (note (i))	–	–	–	–	–
Sub-total	–	–	–	–	–
Independent non-executive directors					
Fan Hsulitai	0.45	–	–	–	0.45
Gong Huazhang	0.45	–	–	–	0.45
Guo Peizhang	0.45	–	–	–	0.45
Sub-total	1.35	–	–	–	1.35
Supervisors					
Zhai Richeng (note (ii))	–	–	–	–	–
Tang Ning	–	0.18	0.20	0.03	0.41
Shen Lin	–	0.41	0.36	0.08	0.85
Sub-total	–	0.59	0.56	0.11	1.26
Total					3.88

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

11. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

Discretionary bonuses were determined by the remuneration committee in accordance with the relevant human resources policies.

Notes:

- (i) The emoluments of these directors were borne by Shenhua Group during the years ended 31 December 2016 and 2015.
- (ii) The emoluments of Mr. Han Jianguo, Mr. Li Dong and Mr. Zhao Jibin were borne by Shenhua Group during the year ended 31 December 2016.

The emolument of Mr. Zhai Richeng was borne by Shenhua Group during the year ended 31 December 2015.

- (iii) Mr. Li Dong was appointed as executive director on 17 June 2016.

Mr. Zhao Jibin was appointed as non-executive director on 17 June 2016.

Mr. Zhou Dayu was appointed as supervisor on 17 June 2016.

- (iv) Mr. Tang Ning resigned as supervisor on 17 June 2016. He retired in the year ended 31 December 2015 and no more emolument achieved after his retirement. The discretionary bonuses he got during the year ended 31 December 2016 is for his prior years' performance.

- (v) Mr. Wang Xiaolin resigned as executive director on 20 August 2015.

Except for those emoluments of directors or supervisors whose emoluments were borne by Shenhua Group, the executive directors' and supervisors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments within the Group, nil (2015: one) was director of the Company. The emoluments of the remaining five (2015: four) individuals were as follows:

	Year ended 31 December	
	2016 RMB million	2015 RMB million
Basic salaries, housing and other allowances and benefits in kind	2.23	1.75
Discretionary bonuses	2.13	1.38
Retirement scheme contributions	0.40	0.36
	4.76	3.49

Their emoluments were within the following band:

	Year ended 31 December	
	2016	2015
HKD500,001 to HKD1,000,000	–	1
HKD1,000,001 to HKD1,500,000	5	3

13. DIVIDENDS

	Year ended 31 December	
	2016 RMB million	2015 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 and a special dividend of RMB2.51 per ordinary share has been proposed by the Directors and is subject to approval by the shareholders in the following general meeting.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Company of 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mining structures and mining rights	Mining related machinery and equipment	Generators, related machinery and equipment	Railway and port	Vessels	Coal chemical related machinery and equipment	Furniture, fixtures, motor vehicles and other equipment	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
COST									
At 1 January 2015	56,248	30,574	64,775	138,834	102,470	6,239	13,007	17,498	429,645
Exchange adjustment	(66)	–	–	123	–	–	–	–	57
Additions	249	362	576	287	699	–	6	52	2,231
Transferred from construction in progress	20,720	172	970	29,075	18,348	903	122	205	70,515
Disposals or write-off	(174)	(232)	(281)	(517)	(283)	(289)	(15)	(39)	(1,830)
At 31 December 2015	76,977	30,876	66,040	167,802	121,234	6,853	13,120	17,716	500,618
Exchange adjustment	114	8	–	103	–	–	–	–	225
Additions	28	2,609	689	153	685	–	8	16	4,188
Transferred from construction in progress	5,232	246	1,045	10,403	2,476	27	134	67	19,630
Disposals or write-off	(242)	(115)	(756)	(1,275)	(946)	–	(44)	(34)	(3,412)
Transferred to construction in progress, for overall technical enhancement	–	–	–	–	(152)	–	–	–	(152)
At 31 December 2016	82,109	33,624	67,018	177,186	123,297	6,880	13,218	17,765	521,097
DEPRECIATION AND IMPAIRMENT									
At 1 January 2015	14,853	8,763	31,756	43,984	26,099	119	2,767	9,042	137,383
Exchange adjustment	–	–	–	23	–	–	–	–	23
Charge for the year	1,930	1,339	4,234	7,900	4,343	290	688	915	21,639
Impairment losses (note (ii))	462	9	273	1,697	929	–	458	6	3,834
Disposals or write-off	(94)	(205)	(244)	(508)	(242)	(252)	(13)	(29)	(1,587)
At 31 December 2015	17,151	9,906	36,019	53,096	31,129	157	3,900	9,934	161,292
Exchange adjustment	11	–	–	25	–	–	–	–	36
Charge for the year	1,963	1,048	4,700	8,327	4,679	298	732	1,066	22,813
Impairment losses (note (ii))	149	–	10	1,551	–	–	13	2	1,725
Transferred from construction in progress	19	–	18	–	–	–	3	–	40
Disposals or write-off	(43)	(84)	(655)	(1,022)	(640)	–	(5)	(23)	(2,472)
Transferred to construction in progress, for overall technical enhancement	–	–	–	–	(122)	–	–	–	(122)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings RMB million	Mining structures and mining rights RMB million	Mining related machinery and equipment RMB million	Generators, related machinery and equipment RMB million	Railway and port RMB million	Vessels RMB million	Coal chemical related machinery and equipment RMB million	Furniture, fixtures, motor vehicles and other equipment RMB million	Total RMB million
At 31 December 2016	19,250	10,870	40,092	61,977	35,046	455	4,643	10,979	183,312
CARRYING VALUES									
At 31 December 2016	62,859	22,754	26,926	115,209	88,251	6,425	8,575	6,786	337,785
At 31 December 2015	59,826	20,970	30,021	114,706	90,105	6,696	9,220	7,782	339,326
At 1 January 2015	41,395	21,811	33,019	94,850	76,371	6,120	10,240	8,456	292,262

Notes:

- (i) Impairment loss

Impairment loss for cash-generating units

In 2016, owing to oversupply of coals and the unsatisfactory financial performance of certain Group's mines, the management identified certain non-current assets relating to coal mines having impairment indications. The Group tested the said mines, each of which is a separate cash-generating unit, for impairment by measuring the recoverable amount of every mine. The recoverable amount is determined based on discounted cash flow covering the shorter of economic and legal useful life, and pre-tax discount rate ranging from 8.12% to 11.87%. Cash flows beyond the five-year approved management's budgets are prepared based on zero growth rate.

As a result of the impairment assessment, the Directors recognised no impairment loss in current year against the non-current assets in coal segment. As a result of the impairment assessment in 2015 utilising the same method, the Directors recognised impairment loss for mining related assets in coal segment amounting to RMB1,378 million.

Impairment loss for individual assets

In 2016, pursuant to the Notice to Approve Shenhua (Fujian) Energy Co., Ltd.'s Application to Close Down Small Thermal Units (Min Jing Xin Han Neng Yuan [2016] No. 62) issued by Fujian Provincial Commission of Economy and Information Technology, all four sets of power generators in Shenhua Fujian Energy Co., Ltd. were discontinued from power generation. The Group assessed the recoverable amounts of those non-current assets and generators which belong to power segment and as a result the carrying amount of the machineries and the generators was written down by RMB799 million to their recoverable amount as at 31 December 2016.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes: (Continued)

(i) Impairment loss *(Continued)*

Impairment loss for individual assets (Continued)

The Group has been upgrading its power plants for energy conservation and environment protection which rendered certain non-current assets obsolete. The Group assessed the recoverable amounts of those non-current assets and generators which belong to power segment and as a result the carrying amount of the machineries and the generators was written down by RMB584 million to their recoverable amount as at 31 December 2016 (2015: RMB985 million).

Pursuant to the Notice to Close Coal-fired Generators at Guohua Beijing Thermal Power Plant (Jing Fa Gai [2015] No. 510) issued by Beijing Municipal Commission of Development and Reform, the coal-fired generators at Guohua Beijing Thermal Power Plant was discontinued from power generation in March 2015, the Group assessed the recoverable amounts of those non-current assets and generators which belong to power segment and as a result the carrying amount of the machineries and the generators was written down by RMB595 million to their recoverable amount as at 31 December 2015, and an additional RMB173 million impairment loss was recognised in 2016.

The estimates of recoverable amount of above assets were based on the machines' and generators' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry, adjusted for differences such as remaining useful lives, if the assets were classified as utilisable. Otherwise, the fair value was determined by using market comparison approach by reference to sales price of similar material, adjusted for differences such as geographical location of market. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement.

- (ii) The Group's freehold land with a carrying amount of RMB1,141 million (2015: RMB1,047 million) are located in Australia.
- (iii) The Group was in the process of applying for the title certificates of certain of its properties with an aggregate carrying amount of RMB11,170 million as at 31 December 2016 (2015: RMB9,690 million). The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.
- (iv) As at 31 December 2016, the Group has bank loans secured by the Group's property, plant and equipment with carrying amount of RMB707 million (2015: RMB1,174 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

16. CONSTRUCTION IN PROGRESS

	Year ended 31 December	
	2016 <i>RMB million</i>	2015 <i>RMB million</i>
At the beginning of the year	33,610	78,988
Additions	22,123	29,674
Transferred from property, plant and equipment for overall technical enhancement	30	–
Transferred to property, plant and equipment	(19,630)	(70,515)
Transferred to intangible assets	(106)	(1,493)
Transferred to lease prepayments	(459)	(2,263)
Net income from mine trial run	(319)	–
Disposal	(47)	(228)
Impairment losses	(22)	(651)
Impairment write-off	–	98
Impairment transferred to property, plant and equipment	40	–
At the end of the year	35,220	33,610

Note:

As at 31 December 2016, the Group is in the process of obtaining requisite permits of certain of its construction in progress from the relevant government authorities. The Directors are of the opinion that the Group will be able to obtain the requisite permits in due course.

17. EXPLORATION AND EVALUATION ASSETS

The movement of the exploration and evaluation assets is as follows:

	Year ended 31 December	
	2016 <i>RMB million</i>	2015 <i>RMB million</i>
At the beginning of the year	2,176	2,212
Exchange adjustments	119	(119)
Additions	49	83
At the end of the year	2,344	2,176

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

18. INTANGIBLE ASSETS

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

	Year ended 31 December	
	2016 <i>RMB million</i>	2015 <i>RMB million</i>
At the beginning of the year	2,964	1,540
Exchange adjustment	9	5
Additions	356	255
Transferred from construction in progress	106	1,493
Amortisation	(414)	(329)
Disposal	(3)	–
At the end of the year	3,018	2,964

19. INTEREST IN ASSOCIATES

	31 December 2016 <i>RMB million</i>	31 December 2015 <i>RMB million</i>
Unlisted shares, at cost	3,274	3,184
Share of post-acquisition profits and other comprehensive income, net of dividend received	1,868	1,929
	5,142	5,113

The Group's interests in associates are individually and in aggregate not material to the Group's financial position or results of operations for both years. The Group's associates are unlisted and established in the PRC. The following list contains only the particulars of associates, which principally affect the results or assets of the Group:

Name of associate	Type of legal entity	Proportion of ownership interest and voting power held by the Group		Principal activities
		31 December 2016 %	31 December 2015 %	
Shandong Tianlong Group Co., Ltd.	Limited company	20	20	Coal production and sale
Zhejiang Zheneng Jiahua Power Co., Ltd.	Limited company	20	20	Generation and sale of electricity
Sichuan Guangan Power Co., Ltd.	Limited company	20	20	Generation and sale of electricity
Guohua (Hebei) Renewables Co., Ltd.	Limited company	25	25	Generation and sale of electricity
Tianjin Yuanhua Shipping Co., Ltd.	Limited company	44	44	Provision of transportation service
Inner Mongolia Yili Chemical Industry Co., Ltd.	Limited company	25	25	Production and sale of chemicals

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

20. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments represent investment in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at end of the reporting period because the range of reasonable fair value measurement is significant and the probabilities of the various estimates cannot be reasonably assessed. The Directors are of the opinion that their fair values cannot be measured reliably.

21. OTHER NON-CURRENT ASSETS

	31 December 2016 RMB million	31 December 2015 RMB million
Prepayments in connection with construction work, equipment purchases and others (note (i))	9,165	8,493
Prepayment for mining projects	8,000	8,000
Long-term receivable	2,500	2,500
Loans to Shenhua Group and fellow subsidiaries (note (ii))	13,502	11,473
Long-term entrusted loans (note (iii))	–	627
Goodwill	889	987
Others	2,693	2,482
	36,749	34,562

Notes:

- (i) At 31 December 2016, the Group had prepayments to fellow subsidiaries amounting to RMB5 million (2015: RMB28 million).
- (ii) The loans to Shenhua Group and fellow subsidiaries bear interest at rates ranging from 4.28% to 4.41% per annum (2015: 4.28% to 4.41% per annum) and are receivable within two to ten years.
- (iii) The Group has long-term entrusted loan of RMB627 million to an associate through a PRC state-owned bank, bearing interest at rates 4.90% per annum (2015: 6.15% per annum), which is receivable within one year and reclassified to other current assets.

22. LEASE PREPAYMENTS

Lease prepayments represent land use rights paid to the PRC's government authorities. The Group is in the process of applying for the title certificates of certain land use rights with an aggregate carrying amount of RMB2,526 million as at 31 December 2016 (2015: RMB2,247 million), of which RMB655 million were newly acquired in 2016. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned lands.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

23. INVENTORIES

	31 December 2016	31 December 2015
	RMB million	RMB million
Coal	5,563	3,152
Materials and supplies	6,424	7,982
Others (<i>note</i>)	1,354	1,682
	13,341	12,816

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

24. ACCOUNTS AND BILLS RECEIVABLE

	31 December 2016	31 December 2015
	RMB million	RMB million
Accounts receivable		
– Shenhua Group and fellow subsidiaries	3,177	3,049
– Associates	284	770
– Third parties	13,138	19,745
	16,599	23,564
Less: allowance for doubtful debts	(420)	(194)
	16,179	23,370
Bills receivable		
– Shenhua Group and fellow subsidiaries	18	41
– Associates	42	162
– Third parties	4,334	17,446
	4,394	17,649
	20,573	41,019

Bills receivable were mainly issued by PRC banks and are expiring within one year. As at 31 December 2016, the bills receivable with the carrying amounts of RMB85 million (2015: RMB36 million) were pledged to secure bills payable.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

24. ACCOUNTS AND BILLS RECEIVABLE (Continued)

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

The movement of allowance for doubtful debts was as follows:

	Year ended 31 December	
	2016 RMB million	2015 RMB million
At the beginning of the year	194	54
Impairment loss		
– recognised	245	140
– amounts recovered	(10)	–
Written off	(9)	–
At the end of the year	420	194

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

	31 December 2016 RMB million	31 December 2015 RMB million
Less than one year	2,115	5,942
One to two years	1,408	1,401
Two to three years	178	162
More than three years	52	51
	3,753	7,556

Receivables that were not overdue or unimpaired relate to a wide range of customers for whom there was no recent history of default.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

24. ACCOUNTS AND BILLS RECEIVABLE (Continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group, which the Group does not hold any collateral over these balances. Based on past experience, the management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in accounts receivable are the following amounts denominated in foreign currencies are set out below:

	31 December 2016 RMB million	31 December 2015 RMB million
United States Dollars ("USD")	486	215
European Dollars ("EUR")	140	119

Transfers of financial assets

As at 31 December 2016, the Group endorsed bills receivable amounting to RMB2,075 million (2015: RMB2,478 million) to suppliers to settle the accounts payable of same amounts and discounted bills receivables amounting to RMB446 million (2015: RMB229 million) to banks. In accordance to the relevant laws in the PRC, the holders of the bills receivable have a right of recourse against the Group if the issuing banks default payment. In the opinion of the Directors, the Group has transferred substantially all the risks and rewards of ownership relating to these bills receivable, and accordingly derecognised the full carrying amounts of the bills receivable and associated accounts payables, in case of bills receivable endorsed to suppliers and recognised the cash received, in case of bills receivables discounted to banks.

The maximum exposure to loss from the Group's continuing involvement, if any, in the endorsed and discounted bills receivable equals to their carrying amounts. In the opinion of the Directors, the fair values of the Group's continuing involvement in the derecognised bills receivable are not significant.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

25. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December 2016 RMB million	31 December 2015 RMB million
Financial assets at FVTPL		
– Derivative financial instruments	4	12
– Tradable wealth management products	50	–
– Wealth management products	33,350	160
	33,404	172
Prepaid expenses and deposits	7,029	7,889
Loans and advances to Shenhua Group and fellow subsidiaries (<i>note</i>)	2,209	3,645
Amounts due from associates	973	378
Deductible VAT and other tax	3,396	4,483
Other receivables	1,781	2,784
	48,792	19,351

Note:

As at 31 December 2016, the Group had loans to Shenhua Group and fellow subsidiaries amounting to RMB2,087 million (2015: RMB3,217 million), which bear interest at rates ranging from 3.92% to 5.04% per annum (2015: 4.14% to 5.04% per annum). The remaining balances are unsecured, interest-free and have no fixed terms of repayment.

As at 31 December 2016, the Group invested in principal-guaranteed floating income wealth management products amounting to RMB31,000 million with term of 90 days and expected annual rates of return ranging from 3.20% to 3.35%, and non-principal-guaranteed floating income wealth management products amounting to RMB2,350 million with term ranging from 32 days to 365 days and expected annual rates of return ranging from 4.10% to 4.55%. The wealth management products held by the Group are valued by discounting cash flow method, the detailed fair value measurements are disclosed in Note 37.3.

26. RESTRICTED BANK DEPOSITS

Restricted bank deposits as at 31 December 2016 represent statutory deposit reserves at The People's Bank of China ("PBOC"), collaterals for bills payable and collaterals related to the operating of mines and ports.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

27. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows comprise cash at bank and in hand, and time deposits with original maturity within three months.

Included in cash and cash equivalents are the following amounts denominated in foreign currencies are set out below:

	31 December 2016	31 December 2015
	<i>RMB million</i>	<i>RMB million</i>
USD	111	220
HKD	2	1
Indonesian Rupiah	–	3
EUR	28	27

28. DEFERRED TAXATION

For the purpose of the presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose.

	31 December 2016	31 December 2015
	<i>RMB million</i>	<i>RMB million</i>
Deferred tax assets	3,849	2,674
Deferred tax liabilities	(797)	(878)
	3,052	1,796

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

28. DEFERRED TAXATION (Continued)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

	At 1 January 2016 RMB million	Credited in profit or loss RMB million	At 31 December 2016 RMB million
Allowances, primarily for receivables and inventories	417	86	503
Property, plant and equipment	427	342	769
Lease prepayments	(171)	2	(169)
Tax losses carried forward	384	77	461
Tax allowable expenses not yet incurred	(62)	63	1
Unrealised profits from sales within the Group	558	629	1,187
Accrued salaries and other expenses not yet paid	170	18	188
Others	73	39	112
Net deferred tax assets	1,796	1,256	3,052

	At 1 January 2015 RMB million	(Charged) credited in profit or loss RMB million	At 31 December 2015 RMB million
Allowances, primarily for receivables and inventories	304	113	417
Property, plant and equipment	4	423	427
Lease prepayments	(175)	4	(171)
Tax losses carried forward	200	184	384
Tax allowable expenses not yet incurred	(329)	267	(62)
Unrealised profits from sales within the Group	730	(172)	558
Accrued salaries and other expenses not yet paid	140	30	170
Others	45	28	73
Net deferred tax assets	919	877	1,796

At the end of the reporting period, the Group have unused tax losses of RMB8,714 million (31 December 2015: RMB7,141 million) and unrecognised deductible temporary differences of RMB5,804 million (2015: RMB5,128 million) available for offset against future profits. A deferred tax assets has been recognised in respect of RMB1,845 million (31 December 2015: RMB1,537 million) of such losses. No deferred tax assets has been recognised in respect of the remaining RMB6,869 million (31 December 2015: RMB5,604 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB398 million (31 December 2015: RMB356 million) that will expire in 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

29. BORROWINGS

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

	31 December 2016 RMB million	31 December 2015 RMB million
Current borrowings:		
Short-term bank and other borrowings	4,384	6,435
Current portion of long-term borrowings	7,427	6,377
	11,811	12,812
Non-current borrowings:		
Long-term borrowings, less current portion	58,462	54,179
	70,273	66,991
Secured	9,114	11,594
Unsecured	61,159	55,397
	70,273	66,991

The Group's short-term borrowings are unsecured and bear interest at rates ranging from 3.70% to 5.04% per annum (2015: 3.92% to 5.35% per annum).

	31 December 2016 RMB million	31 December 2015 RMB million
The exposure of the long-term borrowings and the contractual maturity dates:		
Within one year	7,427	6,377
More than one year, but not exceeding two years	5,657	6,472
More than two years, but not exceeding five years	13,040	15,599
More than five years	39,765	32,108
	65,889	60,556

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

29. BORROWINGS (Continued)

The Group's long-term borrowings comprise:

		31 December 2016 RMB million	31 December 2015 RMB million (Restated)
<hr/>			
Loans from banks and other institutions			
Renminbi denominated	Interest rates ranging from 1.08% to 6.55% per annum with maturities through 22 January 2036	61,677	57,555
USD denominated	Interest rates ranging from Libor+0.7% to Libor+2.85% per annum with maturities through 26 December 2034	1,722	484
Japanese Yen ("JPY") denominated	Interest rates ranging from 1.80% to 2.60% per annum with maturities through 20 March 2031	2,445	2,448
EUR denominated	Interest rate at 2.85% per annum with maturities through 22 June 2017	45	69
		65,889	60,556
Less: current portion of long-term borrowings		7,427	6,377
		58,462	54,179
<hr/>			

As at 31 December 2016, the Group had entrusted loans from Shenhua Group and fellow subsidiaries amounting to RMB4,824 million (2015: RMB7,424 million).

Certain borrowings are secured over certain property, plant and equipment with a carrying amount of RMB707 million (2015: RMB1,174 million) (see Note 15), inter-group long-term receivable of RMB Nil (2015: RMB1,245 million) which were fully eliminated against relevant payables in the consolidated financial statement, certain future power revenue to be generated by the Group and a guarantee by a non-controlling shareholder of a subsidiary.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

29. BORROWINGS (Continued)

Included in borrowings are the following amounts denominated foreign currencies are set out below:

	31 December 2016	31 December 2015
	RMB million	RMB million
USD	1,722	484
JPY	2,445	2,448
EUR	45	69

30. DEBENTURES, MEDIUM-TERM NOTES AND BONDS

On 11 June 2015, the Company issued short-term debentures bearing interest rate of 3.40% per annum with proceeds of approximately RMB5,000 million, and were paid together with accrued interest on 7 February 2016.

On 7 November 2013, the Company issued medium-term notes with proceeds of approximately RMB5,000 million and are repayable on 11 November 2018. The notes bear interest rate of 5.49% per annum, repayable annually. The effective interest rate is 5.69% per annum.

On 19 August 2014, the Company issued medium-term notes with proceeds of approximately RMB10,000 million and are payable on 21 August 2017. The notes bear interest rate of 5.10% per annum, repayable annually. The effective interest rate is 5.17% per annum.

On 16 September 2014, the Company issued medium-term notes with proceeds of approximately RMB10,000 million and are payable on 18 September 2017. The notes bear interest rate of 5.04% per annum, repayable annually. Its effective interest rate is 5.11% per annum.

On 20 January 2015, China Shenhua Overseas Capital Company Limited ("Shenhua Overseas Capital") issued Dollar bonds with proceeds of approximately RMB3,061 million and are payable on 19 January 2018. The bonds bear interest rate of 2.50% per annum, repayable semi-annually. Its effective interest rate is 2.84% per annum.

On 20 January 2015, Shenhua Overseas Capital issued Dollar bonds with proceeds of approximately RMB3,061 million and are payable on 19 January 2020. The bonds bear interest rate of 3.13% per annum, repayable semi-annually. Its effective interest rate is 3.35% per annum.

On 20 January 2015, Shenhua Overseas Capital issued Dollar bonds with proceeds of approximately RMB3,061 million and are payable on 19 January 2025. The bonds bear interest rate of 3.88% per annum, repayable semi-annually. Its effective interest rate is 4.10% per annum.

The net proceeds of the Dollar bonds issued is mainly used for the repayment of loans of subsidiaries.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

31. ACCOUNTS AND BILLS PAYABLE

	31 December 2016 RMB million	31 December 2015 RMB million
Accounts payable		
– Shenhua Group, an associate of Shenhua Group and fellow subsidiaries	2,140	1,847
– Associates	218	398
– Third parties	29,624	29,272
	31,982	31,517
Bills payable	3,174	2,473
	35,156	33,990

As at 31 December 2016, certain bills payable were secured by bills receivable held by the Group (see Note 24).

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

Included in accounts and bills payable are the following amounts denominated in foreign currencies are set out below:

	31 December 2016 RMB million	31 December 2015 RMB million
USD	486	413
EUR	154	179
HKD	–	1
Great British Pounds	19	18

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

32. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December 2016 RMB million	31 December 2015 RMB million
Accrued staff wages and welfare benefits	3,727	3,397
Accrued interest payable	705	784
Taxes payable other than income tax	6,911	3,571
Dividends payable	2,665	2,786
Receipts in advances	4,196	3,624
Deposits from Shenhua Group and fellow subsidiaries (<i>note (i)</i>)	13,492	24,500
Other accrued expenses and payables (<i>note (ii)</i>)	9,665	8,857
	41,361	47,519

Notes:

- (i) As at 31 December 2016, deposits from Shenhua Group and fellow subsidiaries bore interest at 0.42% to 1.62% per annum (2015: 0.42% to 1.62% per annum).
- (ii) Other accrued expenses and payables of the Group include:

	31 December 2016 RMB million	31 December 2015 RMB million
Amounts due to Shenhua Group and fellow subsidiaries	1,945	1,862
Amounts due to associates	54	44
	1,999	1,906

The above balances are unsecured, interest-free and has no fixed terms of repayment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

33. LONG-TERM LIABILITIES

	31 December 2016 RMB million	31 December 2015 RMB million
Payables for acquisition of mining rights <i>(note (i))</i>	1,093	1,263
Deferred income <i>(note (ii))</i>	1,328	1,213
Defined benefit plans	147	171
Others	286	79
	2,854	2,726
Analysed for reporting purpose as:		
Current liabilities	403	203
Non-current liabilities	2,451	2,523
	2,854	2,726

Note:

- (i) The balances mainly represent payables for acquisition of mining rights which are to be settled over the period of production set out in the contracts on an annual basis. The annual payment is determined by fixed rates on a per tonne basis with reference to the annual production volume of the acquired mines in the acquisition agreements.
- (ii) Deferred income mainly represents grants provided by several local governments in the PRC to encourage the construction of non-current assets.

34. ACCRUED RECLAMATION OBLIGATIONS

	Year ended 31 December	
	2016 RMB million	2015 RMB million
At the beginning of the year	2,197	2,102
Addition for the year	220	–
Accretion expense	132	137
Utilisation for the year	–	(42)
At the end of the year	2,549	2,197

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

35. SHARE CAPITAL

	31 December 2016	31 December 2015
	<i>RMB million</i>	<i>RMB million</i>
Registered, issued and fully paid:		
16,491,037,955 domestic listed A shares of RMB1.00 each	16,491	16,491
3,398,582,500 H shares of RMB1.00 each	3,399	3,399
	19,890	19,890

All A shares and H shares rank pari passu in all material aspects.

36. CAPITAL RISK MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares to reduce debts.

The Group monitors capital using a gearing ratio which is total liabilities divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2016 was 33% (2015: 35%).

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

37. FINANCIAL INSTRUMENTS**37.1 Categories of financial instruments**

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	31 December 2016	31 December 2015
	<i>RMB million</i>	<i>RMB million</i>
Financial assets:		
Available-for-sale investments	1,800	1,795
Loans and receivables (including cash and cash equivalents)	95,651	112,701
Derivative financial instruments	54	12
Investments in wealth management products	33,350	160
Financial liabilities:		
Amortised cost	172,081	182,172

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)**37.2 Financial risk management objectives and policies**

The Group's major financial instruments include accounts and bills receivable, loans and advances to/deposits from/amounts due to Shenhua Group and fellow subsidiaries, amounts due from/to associates, other receivables, accounts and bills payables, borrowings, long-term liabilities, medium-term notes and bonds. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate and currency risks), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The functional currency of most of the group entities is RMB in which most of the transactions are denominated. However, certain of the Group's borrowings, receivables, bank balances and payables are denominated in foreign currencies. The Group entered into cross currency interest rate swaps with bank with good reputation in respect of its certain interest payments of borrowings denominated in JPY in order to mitigate the risk from the fluctuation of JPY against RMB, and the carrying amounts are set out in Note 29.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31 December		31 December	
	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million
USD	2,208	897	597	435
JPY	2,445	2,448	–	–
Other currencies	218	267	170	150

Sensitivity analysis

The following table details the Group's sensitivity to a 10% increase or decrease in exchange rate of each foreign currency against RMB, while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the end of the reporting period.

	USD		JPY		Other currencies	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016	2015	2016	2015	2016	2015
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
(Decrease) increase in profit after tax for the year:						
– if RMB weakens against foreign currencies	(121)	(35)	(183)	(184)	(4)	(9)
– if RMB strengthens against foreign currencies	121	35	183	184	4	9

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)

37.2 Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loan and receivables, borrowings, short-term debenture, medium-term notes and bonds (see Notes 25, 29 and 30). The Group has entered into cross currency interest rate swaps to hedge against its exposures to changes in fair values of its certain interest payments of borrowings (see Note 29).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings and variable-rate loans and receivables (see Notes 29 and 21). Other than the concentration of interest rate risk related to the movements in London Interbank Offered Rate and the loan interest published by the PBOC, the Group has no significant concentration of interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings and variable-rate loans and receivables at the end of the reporting period. No sensitivity analysis has been presented for the exposure to interest rates for bank balances as the management of the Group considers that, taking into account that the fluctuation in interest rates on bank balances is minimal, the impact of profit or loss for the year is insignificant.

The analysis is prepared assuming variable-rate borrowings and variable-rate loans and receivables outstanding at the end of the reporting period were outstanding for the whole year.

If interest rates had been 100 basis points (2015: 100 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would decrease/increase by RMB259 million (2015: increase/decrease by RMB223 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)

37.2 Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position;
- the Group's continuing involvement in the derecognised bills receivables equal to their carrying amounts as disclosed in Note 24; and
- the amount of contingent liability in relation to the financial guarantees provided by the Group is as disclosed in Note 39.3.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt on regular basis and at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In respect of the risk arising from the provision of financial guarantees, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties that the Group issued financial guarantee contracts in favor of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation, the Group does not have any other significant concentration of credit risk. Accounts receivables consist of a large number of customers, which spread across diverse industries and located in the PRC.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)**37.2 Financial risk management objectives and policies** (Continued)**Liquidity risk** (Continued)

The following table details the remaining contractual maturity of the Group's financial liabilities at the end of the reporting period, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	31 December 2016						Total carrying amount RMB million						
	Weighted average interest rate %	On demand or less than 1 year RMB million	1-2 years RMB million	2-5 years RMB million	More than 5 years RMB million	Total undiscounted cash flows RMB million							
Financial liabilities:													
Accounts and bills payable, accrued expenses, other payables and long-term liabilities		65,695	206	436	425	66,762	66,503						
Borrowings variable interest rate	4.60	10,676	7,727	18,064	46,839	83,306	60,986						
Borrowings fixed interest rate	3.94	4,931	543	2,583	2,653	10,710	9,287						
Medium-term notes and bonds	4.58	21,287	8,952	3,986	3,879	38,104	35,305						
		102,589	17,428	25,069	53,796	198,882	172,081						

	31 December 2015						Total carrying amount RMB million						
	Weighted average interest rate %	On demand or less than 1 year RMB million	1-2 years RMB million	2-5 years RMB million	More than 5 years RMB million	Total undiscounted cash flows RMB million							
Financial liabilities:													
Accounts and bills payable, accrued expenses, other payables and long-term liabilities		74,602	265	532	535	75,934	75,577						
Borrowings variable interest rate	4.98	13,936	9,199	21,107	39,946	84,188	61,311						
Borrowings fixed interest rate	3.66	2,239	594	1,321	2,440	6,594	5,680						
Debentures, medium-term notes and bonds	4.45	6,614	21,266	12,320	3,757	43,957	39,604						
		97,391	31,324	35,280	46,678	210,673	182,172						

Saved as discussed above, the Group also makes use of banks and financial institutions facilities as one of the effective sources of liquidity.

The maximum liability of financial guarantees issued by the Group is disclosed in Note 39.3.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

37. FINANCIAL INSTRUMENTS (Continued)**37.3 Fair value measurements****Fair value of the Group's financial assets that are measured at fair value on a recurring basis**

As of 31 December 2016, the Group has investments in derivative financial instruments, tradable wealth management products, and wealth management products which are measured at fair value of RMB4 million (2015: RMB12 million), RMB50 million (2015: Nil), and RMB33,350 million (2015: RMB160 million), respectively.

	At 31 December 2016 RMB million	At 31 December 2015 RMB million	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial asset:				
Derivative financial instruments	4	12	Level 1	Quoted price in an active market.
Tradable wealth management products	50	0	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return.
Wealth management products	33,350	160	Level 2	Discounted cash flow. Future cash flows are estimated based on expected rate of return.

There were no transfer between Level 1 and Level 2 during the year ended 31 December 2016 and 2015.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	At 31 December 2016		At 31 December 2015	
	Carrying amount RMB million	Fair value RMB million	Carrying amount RMB million	Fair value RMB million
Financial liabilities:				
Fixed rate bank borrowings	8,507	8,567	4,020	4,387
Fixed rate medium-term notes	24,974	25,282	24,955	26,008
Fixed rate bonds	10,331	10,436	9,651	9,660

The fair value of fixed rate bank borrowings above in the Level 2 category is measured using discounted cash flow method where the future cash flows are estimated based on the contract and discounted at a rate that reflects the credit risk of the issuers.

The fair values of medium-term notes and bonds are included in the Level 1 category, which have been derived from the quoted prices (unadjusted) in an active market.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

38. ACQUISITION OF SUBSIDIARIES IN PRIOR

Acquisitions from Shenhua Group

Pursuant to a resolution passed at the directors' meeting on 31 October 2015, the Company acquired the equity interests of certain entities held directly or indirectly by Shenhua Group, including:

- 100.00% equity interest Ningdong Power Plant;
- 100.00% equity interest in Xuzhou Power Plant; and
- 51.00% equity interest in Zhoushan Power Plant.

During the year ended 31 December 2015, the Company had paid RMB5,386 million based on the valuation of the acquired business as at 30 June 2015 (the "Valuation Date"), and had paid an additional consideration of RMB309 million to Shenhua Group, being the excess of the net assets as at the completion date of the acquisitions over that of the Valuation Date, for the acquired business. The acquisitions had been accounted as business combinations under common control during the year ended 31 December 2015.

39. COMMITMENTS AND CONTINGENT LIABILITIES

39.1 Capital commitments

As at 31 December, the Group had capital commitments for land and buildings and equipment as follows:

	31 December 2016	31 December 2015
	<i>RMB million</i>	<i>RMB million</i>
Contracted for but not provided		
– Land and buildings	23,604	26,623
– Equipment	17,200	21,170
	40,804	47,793

39.2 Operating lease commitments

Operating lease commitments mainly represent business premises leased through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. As at 31 December, future minimum lease payments under non-cancellable operating leases on business premises having initial or remaining lease terms of more than one year are payable as follows:

	31 December 2016	31 December 2015
	<i>RMB million</i>	<i>RMB million</i>
Within one year	45	46
After one year but within five years	23	17
After five years	–	3
	68	66

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

39. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

39.3 Financial guarantees issued

At 31 December 2016, the Group had issued certain guarantees in respect of certain banking facilities granted to an entity which the Group held less than 20% equity interest. The maximum amount guaranteed is RMB191 million (2015: RMB197 million).

39.4 Legal contingencies

The Group is the defendant in certain lawsuits as well as the plaintiff in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

39.5 Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and apart from the provision for land reclamation costs, has not accrued any further amounts for environmental remediation relating to its operations. Under the existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The regulatory bodies, however, have moved, and may move further towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to coal mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislation cannot reasonably be estimated at present, and could be material.

40. EMPLOYEE BENEFITS PLAN

In addition to a minimal defined benefit plan operated by its subsidiary, the Group participates, in line with the regulations of the PRC, mainly in various defined contribution retirement plans organised by municipal and provincial governments for its employees. The Group is required to make contributions to the retirement plans at 20% of the salaries, bonuses and certain allowances of the employees. In addition, as approved by the government, the Group makes contribution to a supplemental defined contribution pension plan for its employees. The fund is managed by a qualified fund manager. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the year ended 31 December 2016 were RMB2,728 million (2015: RMB2,791 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS

41.1 Transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group

The Group is controlled by Shenhua Group and has significant transactions and relationships with Shenhua Group, an associate of Shenhua Group and subsidiaries of Shenhua Group (“fellow subsidiaries”). Related parties refer to enterprises over which Shenhua Group is able to exercise significant influence or control. The Group also has entered into transactions with its associates, over which the Group can exercise significant influence. Because of the above relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

The Group had the following transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group that were carried out in the normal course of business during both years:

		2016 <i>RMB million</i>	2015 <i>RMB million</i>
Interest income	(i)	634	819
Income from entrusted loans	(ii)	33	39
Interest expense	(iii)	242	290
Purchases of ancillary materials and spare parts	(iv)	1,347	1,385
Mining service income	(v)	–	812
Ancillary and social services	(vi)	688	585
Transportation service income	(vii)	195	189
Transportation service expense	(viii)	–	–
Sale of coal	(ix)	4,724	4,188
Purchase of coal	(x)	6,227	3,697
Property leasing	(xi)	48	48
Repairs and maintenance services expense	(xii)	44	7
Coal export agency expense	(xiii)	9	4
Purchase of equipment and construction work	(xiv)	1,021	1,753
Sale of coal chemical product	(xv)	3,804	3,104
Other income	(xvi)	2,123	2,365
Granting of loans from Shenhua Finance	(xvii)	4,768	9,082
Repayment of loans from Shenhua Finance	(xviii)	3,900	11,159
Granting of entrusted loan	(xix)	–	–
Repayment of entrusted loan	(xx)	–	–
Net deposits received by Shenhua Finance	(xxi)	(11,008)	5,748
Loans from Shenhua Group	(xxii)	–	2,235
Repayment of loans from Shenhua Group	(xxiii)	2,600	3,324

(i) Interest income represents interest earned from loans to Shenhua Group and fellow subsidiaries. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.

(ii) Income from entrusted loans represents interest earned from entrusted loans to an associate of the Group. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS (Continued)

41.1 Transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group (Continued)

- (iii) Interest expense represents interest incurred from deposits placed and loans from Shenhua Group and fellow subsidiaries. The applicable interest rate is determined in accordance with the prevailing interest rates published by the PBOC.
- (iv) Purchases of ancillary materials and spare parts represent purchase of materials and utility supplies related to the Group's operations from fellow subsidiaries.
- (v) Mining service income represents income earned from coal mining services to fellow subsidiaries.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as property management, water and electricity supply, and canteen expense paid to Shenhua Group, fellow subsidiaries and associates of the Group.
- (vii) Transportation service income represents income earned from Shenhua Group and fellow subsidiaries in respect of coal transportation services.
- (viii) Transportation service expense represents expense related to coal transportation service provided by a fellow subsidiary of Shenhua Group and associates of the Group.
- (ix) Sale of coal represents income from sale of coal to fellow subsidiaries.
- (x) Purchase of coal represents coal purchased from associates of the Group and fellow subsidiaries.
- (xi) Property leasing represents rental paid or payable in respect of properties leased from fellow subsidiaries.
- (xii) Repairs and maintenance services expense represents expense related to machinery repairs and maintenance services provided by fellow subsidiaries and an associate of the Group.
- (xiii) Coal export agency expense represents expense related to coal export agency services provided by a fellow subsidiary.
- (xiv) Purchase of equipment and construction work represents expenditure related to equipment and construction service provided by fellow subsidiaries.
- (xv) Sale of coal chemical product represents income from sale of coal chemical product to fellow subsidiaries.
- (xvi) Other income includes agency income, repairs and maintenance service income, sales of ancillary materials and spare parts, management fee income, sales of water and electricity, financial service income, etc.
- (xvii) Granting of loans from Shenhua Finance represents loans granted by Shenhua Finance to fellow subsidiaries.
- (xviii) Repayment of loans from Shenhua Finance represents loans repaid by fellow subsidiaries to Shenhua Finance.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS (Continued)

41.1 Transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group (Continued)

- (xix) Granting of entrusted loan represents an entrusted loan granted to an associate of the Group.
- (xx) Repayment of entrusted loan represents an entrusted loan repaid by an associate of the Group.
- (xxi) Receipt of deposits by Shenhua Finance represents net deposits received by Shenhua Finance from Shenhua Group and fellow subsidiaries.
- (xxii) Loans obtained by the Group from Shenhua Group and fellow subsidiaries.
- (xxiii) Repayment of loans from Shenhua Group and fellow subsidiaries by the Group.

The Directors are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and in accordance with the agreements governing such transactions.

The Group entered into a number of agreements with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group. The terms of the principal agreements are summarised as follows:

- (i) The Group has entered into a mutual supply agreement for the mutual provision of production supplies and ancillary services with an associate of Shenhua Group and fellow subsidiaries. Pursuant to the agreement, an associate of Shenhua Group and fellow subsidiaries provide the Group with the production supplies and services, ancillary production services including the use of the information network system and ancillary administrative services. On the other hand, the Group provides fellow subsidiaries with water supplies, rolling stock management, railway management, railway transportation and other related or similar production supplies or services and use of the information network system.

The products and services provided under the agreement, other than the sharing of use of the information network system which is free of charge, are provided in accordance with the following pricing policy:

- price prescribed by the state (including any price prescribed by any relevant local government), if applicable;
- where there is no state-prescribed price but where there is a state-guidance price, then the state-guidance price;
- where there is neither a state-prescribed price nor a state-guidance price, the market price; or
- where none of the above is applicable or where it is not practical to apply the above pricing policies in reality, the price to be agreed between the relevant parties shall be based on reasonable costs incurred in providing the goods or services plus a profit margin of 5% of such costs.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS *(Continued)*

41.1 Transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group *(Continued)*

- (ii) The Group has entered into coal supply agreements with fellow subsidiaries and associates of the Group. The coal supplied is charged at the prevailing market price.
- (iii) The Group, through Shenhua Finance, has entered into a financial services agreement with Shenhua Group and fellow subsidiaries. Pursuant to the agreement, Shenhua Finance provides financial services to Shenhua Group and fellow subsidiaries. The interest rate for the deposits with Shenhua Finance from Shenhua Group and fellow subsidiaries should not be lower than the lowest limit published by the PBOC for the same type of deposit. The interest rate for loans made by Shenhua Finance to Shenhua Group and fellow subsidiaries should not be higher than the highest limit published by the PBOC for the same type of loan. The above interest rates should be determined by reference to the rate charged by normal commercial banks in the PRC for comparable deposits and loans on normal commercial terms. The fees charged by Shenhua Finance for the provision of other financial services shall be determined according to the rates chargeable by the PBOC or the China Banking Regulatory Commission.
- (iv) The Group has entered into a property leasing agreement with fellow subsidiaries for leasing of certain properties to each other. No rent is payable by the Group before fellow subsidiaries obtains the relevant property ownership certificate. The rental charges are based on comparable market rates. If fellow subsidiaries negotiate to sell a leased property to a third party, the Company has a pre-emptive right to purchase such property under terms no less favorable than other third party.
- (v) The Group has entered into a land leasing agreement with fellow subsidiaries. The annual rent is determined based on the local market rate. The Group is not allowed to sub-let the leased land.
- (vi) The Group has entered into an agency agreement for the export of coal with a fellow subsidiary. The fellow subsidiary is appointed as a non-exclusive export agent of the Group and is entitled to receive an agency fee based on the relevant market rates or lower rates. Currently, the rate is 0.7% of the free on board sales price of coal exported.
- (vii) The Group entered into an agency agreement for the sale of coal with fellow subsidiaries. The Group is appointed as the exclusive sales agent of fellow subsidiaries for thermal coal and non-exclusive sales agent for coking coal. The Group is entitled to receive an agency fee, which is based on its related costs incurred plus a profit margin of 5% for sales of coal outside the Inner Mongolia Autonomous Region. No agency fee is charged for sales of coal within the Inner Mongolia Autonomous Region.
- (viii) The Group has entered into agreements with fellow subsidiaries under which the Group has been granted the right to use certain trademarks. Fellow subsidiaries bear its own cost for the registration of such trademarks during the term of the trademarks license agreement and expenses for enforcement against any infringement of the licensed trademarks by third parties.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS (Continued)**41.1 Transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group** (Continued)

Amounts due from/to Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group:

	Note	31 December 2016 RMB million	31 December 2015 RMB million
Accounts and bills receivable	24	3,458	3,959
Prepaid expenses and other current assets	25	3,182	4,023
Other non-current assets	21	13,507	12,128
Total amounts due from Shenhua Group, an associate of Shenhua Group, fellow subsidiaries and associates of the Group		20,147	20,110
Borrowings	29	4,824	7,424
Accounts payable	31	2,358	2,245
Accrued expenses and other payables	32	15,491	26,406
Total amounts due to Shenhua Group, an associate of Shenhua Group and fellow subsidiaries, and associates of the Group		22,673	36,075

Other than those disclosed in Notes 21, 25, 29 and 32, amounts due from/to Shenhua Group, an associate of Shenhua Group, fellow subsidiaries, and associates of the Group bear no interest, are unsecured and are repayable in accordance with normal commercial terms.

41.2 Key management personnel emoluments

Key management personnel receive compensation in the form of fees, basic salaries, housing and other allowances, benefits in kind, discretionary bonuses and retirement scheme contributions.

Key management personnel compensation of the Group is summarised as follows:

	2016 RMB million	2015 RMB million
Short-term employee benefits	8	8
Post-employment benefits	1	1
	9	9

Total remuneration is included in "personnel expenses" as disclosed in Note 10.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS *(Continued)*

41.3 Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments and a supplemental defined contribution pension plan approved by the government for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 40.

41.4 Transactions with other government-related entities in the PRC

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by government-related entities.

Other than those transactions with Shenhua Group, an associate of Shenhua Group, fellow subsidiaries and associate of the Group as disclosed above, the Group conducts business with other government-related entities which include but are not limited to the following:

- Power sales;
- Sales and purchases of coal;
- Transportation services;
- Construction work;
- Purchases of ancillary materials and spare parts;
- Ancillary and social services; and
- Financial services arrangements.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not government-related. The Group has established its pricing policies in respect of sale of goods and provision of services, and approval process for purchases of products and services. Such policies and approval process apply to all counterparties regardless of whether the counterparty is government-related or not.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

41. RELATED PARTY TRANSACTIONS (Continued)

41.4 Transactions with other government-related entities in the PRC (Continued)

Having considered the potential for transactions to be impacted by related party relationships, the Group's buying, pricing strategy and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the Directors are of the opinion that the following transactions with other government-related entities require disclosure:

Transactions with other government-related entities, including state-controlled banks in the PRC

	2016 <i>RMB million</i>	2015 <i>RMB million</i>
Coal revenue	69,822	63,347
Power revenue	67,472	69,389
Transportation costs	7,618	10,427
Interest income	691	448
Interest expenses (including amount capitalised)	5,463	5,696

Balances with other government-related entities, including state-controlled banks in the PRC

	31 December 2016 <i>RMB million</i>	31 December 2015 <i>RMB million</i>
Accounts and bills receivable	12,354	16,606
Prepaid expenses and other current assets	1,289	1,396
Cash and time deposits at banks	44,602	43,233
Restricted bank deposits	6,141	4,611
Borrowings	64,578	59,567
Accrued expenses and other payables	3,669	2,725

42. EVENTS AFTER THE REPORTING PERIOD

On 17 March 2017, the Board of Directors proposed: (i) a final dividend 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. Further details are disclosed in Note 13.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

43. SUBSIDIARIES

Details of the Company's Material Subsidiaries

The Company's subsidiaries are unlisted. Details of the Company's material subsidiaries at the end of the reporting period are set out below:

Name of the subsidiary	Place of incorporation and operation	Type of legal entity	Particulars of registered capital	Proportion of ownership interest and voting rights held by the Group		Principal activities
				31 December 2016 %	31 December 2015 %	
Shenhua Sales Group Co., Ltd.	PRC	Limited company	RMB1,888 million	100	100	Trading of coal
Shenwan Energy Co., Ltd.	PRC	Limited company	RMB4,696 million	51	51	Trading of coal
Shenhua Shendong Coal Group Co., Ltd.	PRC	Limited company	RMB4,989 million	100	100	Trading of coal; provision of integrated services
Shenhua Zhunge'er Energy Co., Ltd.	PRC	Limited company	RMB7,102 million	58	58	Coal mining and development; generation and sale of electricity
Shenhua Baorixile Energy Industrial Co., Ltd.	PRC	Limited company	RMB1,169 million	57	57	Coal mining; provision of loading and transportation services
Shenhua Beidian Shengli Energy Co., Ltd.	PRC	Limited company	RMB2,674 million	63	63	Coal mining; provision of loading and transportation services
Shaanxi Guohua Jinjie Energy Co., Ltd.	PRC	Limited company	RMB2,278 million	70	70	Generation and sale of electricity; coal mining and development
Shenhua Guohua International Power Co., Ltd.	PRC	Limited company	RMB4,010 million	70	70	Generation and sale of electricity
Shenhua Shendong Power Co., Ltd.	PRC	Limited company	RMB3,024 million	100	100	Generation and sale of electricity
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	PRC	Limited company	RMB4,670 million	80	80	Generation and sale of electricity
Zhejiang Guohua Zheneng Power Generation Co., Ltd.	PRC	Limited company	RMB3,255 million	60	60	Generation and sale of electricity
Suizhong Power Co., Ltd. (note (i))	PRC	Limited company	RMB4,029 million	65	65	Generation and sale of electricity

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

43. SUBSIDIARIES (Continued)**Details of the Company's Material Subsidiaries** (Continued)

Name of the subsidiary	Place of incorporation and operation	Type of legal entity	Particulars of registered capital	Proportion of ownership interest and voting rights held by the Group		Principal activities
				31 December 2016 %	31 December 2015 %	
Hebei Guohua Cangdong Power Co., Ltd.	PRC	Limited company	RMB1,834 million	51	51	Generation and sale of electricity
Dingzhou Power (note (iii))	PRC	Limited company	RMB1,561 million	41	41	Generation and sale of electricity
Guohua Taicang Power Co., Ltd. (note (iii))	PRC	Limited company	RMB2,000 million	50	50	Generation and sale of electricity
Shenhua Sichuan Energy Co., Ltd.	PRC	Limited company	RMB2,152 million	51	51	Generation and sale of electricity; trading of coal
Shenhua Fujian Energy Co., Ltd.	PRC	Limited company	RMB2,098 million	100	100	Generation and sale of electricity
Shuohuang Railway Development Co., Ltd.	PRC	Limited company	RMB5,880 million	53	53	Provision of transportation services
Shenhua Zhunchi Railway Co., Ltd.	PRC	Limited company	RMB4,710 million	85	85	Provision of transportation services
Shenhua Huanghua Harbour Administration Co., Ltd.	PRC	Limited company	RMB6,790 million	70	70	Provision of harbour and port services
Shenhua Zhonghai Shipping Co., Ltd.	PRC	Limited company	RMB5,180 million	51	51	Provision of Transportation services
Shenhua Baotou Coal Chemical Co., Ltd.	PRC	Limited company	RMB5,132 million	100	100	Coal chemical
Shenhua Railway Transportation Co., Ltd.	PRC	Limited company	RMB4,701 million	100	100	Provision of transportation
Shenhua Finance	PRC	Limited company	RMB5,000 million	100	100	Provision of financial services
China Shenhua Overseas Development & Investment Co., Ltd.	Hong Kong	Limited company	HKD5,252 million	100	100	Investment holding

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

43. SUBSIDIARIES (Continued)

Details of the Company's Material Subsidiaries (Continued)

Name of the subsidiary	Place of incorporation and operation	Type of legal entity	Particulars of registered capital	Proportion of ownership interest and voting rights held by the Group		Principal activities
				31 December 2016 %	31 December 2015 %	
Shenhua Australia Holding Pty Ltd.	Australia	Limited company	AUD400 million	100	100	Coal mining and development; generation and sale of electricity
Shenhua Watermark Coal Pty Ltd.	Australia	Limited company	AUD350 million	100	100	Coal mining and development; generation and sale of electricity
PT GH EMM Indonesia	Indonesia	Limited company	USD63 million	70	70	Coal mining and development; generation and sale of electricity
Shenhua Baoshen Railway Group Co., Ltd.	PRC	Limited company	RMB10,000 million	100	100	Provision of transportation services
(Tianjin) Finance Lease Co., Ltd.	PRC	Limited company	RMB1,000 million	51	51	Provision of financial lease services
Shenhua Zhunneng Resources Development & Utilisation Co., Ltd.	PRC	Limited company	RMB1,200 million	100	100	Comprehensive utilisation of inferior coal resources
Xuzhou Power	PRC	Limited company	RMB1,790 million	100	100	Generation and sale of electricity
Zhoushan Power	PRC	Limited company	RMB755 million	51	51	Generation and sale of electricity

The above table lists subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Notes:

- (i) In addition to 15% equity interest held by the Company, the Company's subsidiary owned 50% equity interest in Suizhong Power Co., Ltd.
- (ii) The Company obtained the control over Dingzhou Power through its right to appoint majority members of the board of directors, details of which are set out in Note 4.1.
- (iii) The Company has the control over Guohua Taicang Power Co. through its voting rights over 50%.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

43. SUBSIDIARIES (Continued)**Details of non-wholly owned subsidiaries that have material non-controlling interests**

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations:

Name of the subsidiary	Place of incorporation and operation	Proportion of ownership interest and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2016 %	31 December 2015 %	Year ended 2016 RMB million	31 December 2015 RMB million	31 December 2016 RMB million	31 December 2015 RMB million
Shenwan Energy Co., Ltd.	PRC	49	49	434	594	3,976	3,787
Shenhua Zhunge'er Energy Co., Ltd.	PRC	42	42	576	505	10,636	10,027
Shenhua Baorixile Energy Industrial Co., Ltd.	PRC	43	43	206	275	1,885	1,860
Hebei Guohua Cangdong Power Co., Ltd.	PRC	49	49	329	405	1,449	1,485
Dingzhou Power	PRC	59	59	503	575	1,928	1,955
Shenhua Sichuan Energy Co., Ltd.	PRC	49	49	(36)	72	1,550	1,588
Shuohuang Railway Development Co., Ltd.	PRC	47	47	3,062	2,388	14,112	12,343
Shenhua Zhonghai Shipping Co., Ltd.	PRC	49	49	70	18	2,940	2,870
Guangdong Guohua Yuedian Taishan Power Co., Ltd.	PRC	20	20	206	335	1,525	1,625
Shenhua Huanghua Harbour Administration Co., Ltd.	PRC	30	30	367	156	2,866	2,610
Shenhua Guohua International Power Co., Ltd.	PRC	30	30	302	183	3,010	3,168
Zhejiang Guohua Zheneng Power Generation Co., Ltd.	PRC	40	40	414	647	2,212	2,381
Individually immaterial subsidiaries with non-controlling interests						48,089	45,699
						67,994	65,853

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

43. SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests
(Continued)

	Shenwan Energy Co., Ltd.		Shenhua Zhunge'er Energy Co., Ltd.		Shenhua Baorixile Energy Industrial Co., Ltd.		Hebei Guohua Cangdong Power Co., Ltd.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Current assets	1,145	1,062	13,580	11,680	1,967	1,976	1,233	1,047
Non-current assets	12,292	12,437	18,506	18,181	5,218	4,885	5,965	6,183
Current liabilities	2,978	3,001	6,458	5,695	2,680	2,557	3,210	3,266
Non-current liabilities	2,345	2,769	448	427	160	18	1,030	934
Total equity	8,114	7,729	25,180	23,739	4,345	4,286	2,958	3,030
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	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	6,324	5,859	9,677	9,234	2,697	2,972	4,019	4,092
Expenses	5,249	4,174	8,114	7,948	2,146	2,082	3,120	2,998
Profit and total comprehensive income for the year	886	1,212	1,364	1,196	475	634	672	826
Dividend paid to non-controlling interests	245	-	-	-	193	254	365	471
Net cash inflow from operating activities	1,444	2,394	4,199	956	650	390	958	1,063
Net cash inflow (outflow) from investing activities	1,401	(1,457)	(4,045)	(962)	(184)	(295)	(348)	171
Net cash outflow from financing activities	(47)	(942)	(42)	(3)	(363)	(54)	(610)	(1,234)
Net cash inflow (outflow)	2,798	(5)	112	(9)	103	41	-	-

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

43. SUBSIDIARIES (Continued)**Details of non-wholly owned subsidiaries that have material non-controlling interests**
(Continued)

	Dingzhou Power		Shenhua Sichuan Energy Co., Ltd.		Shuohuang Railway Development Co., Ltd.		Shenhua Zhonghai Shipping Co., Ltd.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Current assets	1,060	929	1,031	1,343	8,210	7,475	969	1,436
Non-current assets	5,429	5,568	5,349	4,457	29,387	29,320	7,125	6,803
Current liabilities	2,276	2,072	1,130	598	5,507	8,571	1,376	383
Non-current liabilities	973	1,139	2,087	1,961	2,242	2,117	718	1,999
Total equity	3,240	3,286	3,163	3,241	29,848	26,107	6,000	5,857
	Year ended 31 December 2016		Year ended 31 December 2015		Year ended 31 December 2016		Year ended 31 December 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
Revenue	3,873	4,099	1,106	1,594	17,250	13,386	2,112	2,002
Expenses	2,741	2,780	1,162	1,449	8,737	7,234	1,928	1,971
Profit (loss) and total comprehensive income for the year	845	967	(74)	147	6,477	5,051	143	36
Dividend paid to non-controlling interests	529	540	2	2	1,435	3,457	-	529
Net cash inflow from operating activities	1,438	1,197	127	463	8,419	4,484	372	472
Net cash outflow from investing activities	(610)	(212)	(656)	(766)	(1,935)	(2,010)	(85)	(393)
Net cash (outflow) inflow from financing activities	(828)	(985)	531	(394)	(6,460)	(2,653)	(273)	(88)
Net cash inflow (outflow)	-	-	2	(697)	24	(179)	14	(9)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

43. SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests
(Continued)

	Guangdong Guohua Yuedian Taishan Power Co., Ltd.		Shenhua Huanghua Harbour Administration Co., Ltd.		Shenhua Guohua International Power Co., Ltd.		Zhejiang Guohua Zheneng Power Generation Co., Ltd.	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Current assets	1,439	1,310	1,419	1,661	3,260	3,677	1,340	1,251
Non-current assets	11,332	12,004	14,538	14,366	16,974	18,340	10,276	10,527
Current liabilities	5,147	4,913	1,304	1,698	7,932	9,291	3,585	3,230
Non-current liabilities	-	278	5,099	5,630	1,841	2,167	2,501	2,595
Total equity	7,624	8,123	9,554	8,699	10,461	10,559	5,530	5,953
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	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	6,310	7,607	3,964	2,780	9,794	10,758	6,476	7,275
Expenses	4,963	5,300	2,015	2,022	9,045	10,728	5,135	5,111
Profit and total comprehensive income for the year	1,031	1,677	1,223	520	490	609	1,034	1,618
Dividend paid to non-controlling interests	306	410	118	455	460	115	583	676
Net cash inflow from operating activities	1,646	2,832	1,962	719	2,546	1,860	1,312	2,687
Net cash (outflow) inflow from investing activities	(155)	(230)	(424)	1,434	(312)	(470)	(130)	25
Net cash outflow from financing activities	(1,488)	(2,600)	(1,416)	(2,180)	(1,890)	(1,344)	(2,712)	(2,712)
Net cash inflow (outflow)	3	2	122	(27)	344	46	(1,530)	-

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

44. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY

	NOTES	31 December 2016 RMB million	31 December 2015 RMB million
Non-current assets			
Property, plant and equipment		52,469	55,404
Construction in progress		3,446	3,469
Intangible assets		1,712	1,780
Investments in subsidiaries		132,569	127,264
Investments in associates		1,065	1,065
Available-for-sale investments		1,647	1,647
Other non-current assets		36,853	31,796
Lease prepayments		3,167	3,245
Deferred tax assets		152	58
Total non-current assets		233,080	225,728
Current assets			
Inventories		3,591	4,436
Accounts and bills receivable		22,559	19,385
Prepaid expenses and other current assets		84,782	64,923
Restricted bank deposits		335	649
Time deposits with original maturity over three months		27,750	9,500
Cash and cash equivalents		19,276	20,414
Total current assets		158,293	119,307
Current liabilities			
Borrowings		5,263	9,038
Short-term debenture		–	4,998
Accounts and bills payable		6,251	8,693
Accrued expenses and other payables		63,875	57,364
Current portion of long-term liabilities		20,227	200
Income tax payable		1,570	630
Total current liabilities		97,186	80,923
Net current assets		61,107	38,384
Total assets less current liabilities		294,187	264,112

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

44. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY (Continued)

	NOTES	31 December 2016 RMB million	31 December 2015 RMB million
Non-current liabilities			
Borrowings		3,460	3,872
Medium-term notes		4,985	24,955
Long-term liabilities		872	1,115
Accrued reclamation obligations		1,224	1,156
Total non-current liabilities		10,541	31,098
Net assets		283,646	233,014
Equity			
Share capital	35	19,890	19,890
Reserves		263,756	213,124
Total equity		283,646	233,014

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

44. INFORMATION ABOUT THE FINANCIAL POSITION OF THE COMPANY (Continued)

	Share premium RMB million	Statutory reserves RMB million	Other comprehensive income RMB million	Capital and other reserves RMB million	Retained earnings RMB million	Total RMB million
At 1 January 2015	85,001	14,546	–	1,681	109,219	210,447
Profit for the year	–	–	–	–	17,395	17,395
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	17,395	17,395
Dividend declared (Note 13)	–	–	–	–	(14,718)	(14,718)
Appropriation of maintenance and production funds	–	4,281	–	–	(4,281)	–
Utilisation of maintenance and production funds	–	(2,840)	–	–	2,840	–
At 31 December 2015	85,001	15,987	–	1,681	110,455	213,124
Profit for the year	–	–	–	–	56,967	56,967
Other comprehensive income	–	–	30	–	–	30
Total comprehensive income for the year	–	–	30	–	56,967	56,997
Dividend declared (Note 13)	–	–	–	–	(6,365)	(6,365)
Appropriation of maintenance and production funds	–	2,699	–	–	(2,699)	–
Utilisation of maintenance and production funds	–	(398)	–	–	398	–
At 31 December 2016	85,001	18,288	30	1,681	158,756	263,756

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity holders of the Company is the lower of the amount determined in accordance with the China Accounting Standards and the amount determined in accordance with IFRSs after the appropriation to reserves as detailed in Note (iii) to the consolidated statement of changes in equity.

At 31 December 2016, the aggregate amount of retained earnings determined in accordance with the China Accounting Standards available for distribution to equity holders of the Company was RMB153,846 million (2015: RMB104,992 million).

Section XIV Documents Available for Inspection

Documents Available for Inspection

The annual report for the year 2016 signed by the chairman
The financial statements signed and sealed by the chairman, the Chief Financial Officer and the General Manager of the Financial Department
The original copies of all documents sealed by the accounting firm and signed and sealed by the certified public accountant
The original copies of all documents and announcements of the Company publicly disclosed in the newspapers designated by the CSRC during the reporting period
The annual report for the year 2016 published on the Shanghai Stock Exchange and the Hong Kong Stock Exchange

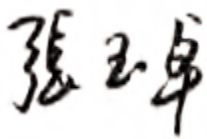
Zhang Yuzhuo, Chairman
Approved by the Board for submission on: 17 March 2017




Section XV Signing Page for Opinions

Pursuant to Article 68 of the Securities Law of the People's Republic of China and Article 14 of the Standards Concerning the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 2 – The Contents and Formats of Annual Report (Revised edition 2016) of the CSRC, having fully understood and reviewed the 2016 Annual Report of the Company, all directors, supervisors and senior management are of the opinion that information disclosed in the 2016 Annual Report of the Company is true, accurate and complete. We hereby guarantee that the information stated in this report does not contain any false representation, misleading statement or material omission, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the content thereof.

Directors



(Zhang Yuzhuo)



(Ling Wen)



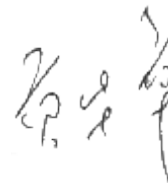
(Han Jianguo)



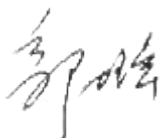
(Li Dong)



(Fan Hsu Lai Tai)



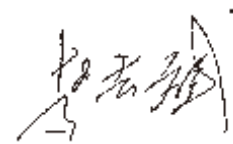
(Gong Huazhang)



(Guo Peizhang)

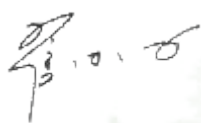


(Chen Hongsheng)



(Zhao Jibin)

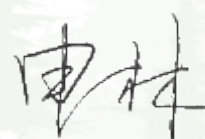
Supervisors



(Zhai Richeng)



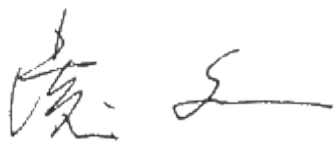
(Zhou Dayu)



(Shen Lin)

Section XV Signing Page for Opinions (Continued)

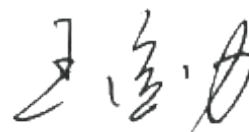
Senior Management



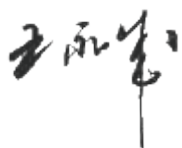
(Ling Wen)



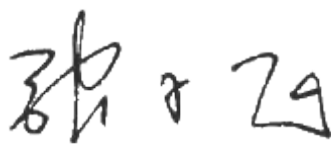
(Li Dong)



(Wang Jinli)



(Wang Yongcheng)



(Zhang Zifei)



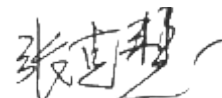
(Wang Shumin)



(Zhang Jiming)



(Huang Qing)



(Zhang Kehui)

Section XVI Summary of Major Financial Information for the Recent Five Years

The finance information below is from the financial statement prepared by the Group in accordance with International Financial Reporting Standards.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December				
	2012 RMB Million	2013 RMB Million	2014 RMB Million	2015 RMB Million	2016 RMB Million
Revenue	259,385	289,230	253,081	177,069	183,127
Cost of sales	(178,407)	(206,359)	(178,109)	(123,341)	(124,843)
Gross profit	80,978	82,871	74,972	53,728	58,284
Selling expenses	(881)	(1,031)	(794)	(584)	(610)
General and administrative expenses	(8,458)	(9,285)	(8,835)	(9,714)	(8,423)
Other gains and losses	(474)	(888)	(770)	(5,856)	(3,078)
Other income	1,242	534	939	1,659	1,379
Other expenses	(494)	(382)	(419)	(626)	(1,511)
Interest income	776	758	803	608	723
Finance costs	(3,568)	(3,321)	(4,459)	(5,123)	(5,748)
Share of results of associates	477	588	410	428	237
Profit before income tax	69,598	69,844	61,847	34,520	41,253
Income tax	(11,116)	(13,912)	(12,784)	(9,561)	(9,283)
Profit for the year	58,482	55,932	49,063	24,959	31,970
Profit for the year attributable to:					
Equity holders of the Company	50,264	45,706	39,301	17,649	24,910
Non-controlling interests	8,218	10,226	9,762	7,310	7,060
Earnings per share (RMB)					
– Basic	2.527	2.298	1.976	0.887	1.252

Section XVI Summary of Major Financial Information for the Recent Five Years (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2012 <i>RMB Million</i>	2013 <i>RMB Million</i>	2014 <i>RMB Million</i>	2015 <i>RMB Million</i>	2016 <i>RMB Million</i>
Total non-current assets	369,573	402,759	431,226	438,755	443,266
Total current assets	114,753	122,567	119,646	121,036	133,463
Total assets	484,326	525,326	550,872	559,791	576,729
Total current liabilities	109,377	134,001	110,778	101,487	112,185
Total non-current liabilities	58,679	53,115	74,524	94,383	79,575
Total liabilities	168,056	187,116	185,302	195,870	191,760
Net assets	316,270	338,210	365,570	363,921	384,969
Equity attributable to equity holders of the Company	266,013	280,113	300,698	298,068	316,975
Non-controlling interests	50,257	58,097	64,872	65,853	67,994
Total equity	316,270	338,210	365,570	363,921	384,969



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

