中国神华
CHINA SHENHUA

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

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

(Stock Code: 01088)

ANNOUNCEMENT
2017 ANNUAL BUSINESS PLAN FOR FINANCIAL DERIVATIVES

On 23 December 2016, the "Resolution Regarding the 2017 Annual Business Plan for Financial Derivatives of China Shenhua" was considered and passed at the 20th Meeting of the Third Session of the board of directors of China Shenhua Energy Company Limited (the "**Company**"). The details of the 2017 Annual Business Plan for Financial Derivatives (the "**Annual Business Plan for Financial Derivatives**") are set out as follows:

I. BUSINESS OBJECTIVES

As the long and medium term foreign debts of the Company are denominated in Japanese yen and US dollar, under the macro environment that Renminbi is currently on its way of globalization and marketization, the Company seeks to effectively prevent the foreign debt exchange risks arising from the dual-direction fluctuations of Renminbi exchange rate. In view of this, the Company intends to conduct foreign exchange derivatives trading business according to the actual needs at appropriate market opportunities based on its risk control principles and strategies.

Meanwhile, for projects constructed and operated by the Company overseas, as loans for the projects are denominated in US dollar with floating interest rate, in order to effectively prevent the risks relating to interest rate caused by fluctuation of interest rate of US dollar, the Company intends to conduct US dollar interest rate derivatives trading business according to the actual needs at appropriate market opportunities based on its risk control principles and strategies.

In order to complete the relevant planning and preparation in advance to promptly respond to the favorable market conditions and complete transactions, the Company has formulated the Annual Business Plan for Financial Derivatives, which was considered and approved at the 20th Meeting of the Third Session of the board of directors of the Company.

II. BUSINESS SCOPE

The Company may conduct foreign exchange hedging and risk aversion business through certain simple and fundamental financial derivatives, which specifically includes:

1. Converting debts denominated in Japanese yen and US dollars into debts denominated in Renminbi or other currencies which strongly relate to the volatility of Renminbi through cross-currency interest rate swap transaction. Bearing interest costs to a certain extent, the Company can fix the exchange rate levels of the coming instalments of capital repayment and interest payable thereon;

2. Fixing the maturity exchange rate of the capital repayment together with interest payable thereon under the forward contracts according to the market's published foreign exchange forward price through foreign exchange forward transactions, avoiding the immediate assumption of any additional interest costs incurred;

3. Assuming limited option fees through foreign exchange option transactions. While hedging for risk aversion, the Company can further gain access to the market under favorable conditions.

4. Converting floating interest rate into fixed interest rate for debts through interest swap transactions to simply fix the cost of interest.

The above businesses are subject to flexible combination and dynamic adjustment in the course of operation according to the Company's needs of hedging over various phases. Overall, in order to serve the function of balancing the volatility of the Company's book profit and loss, swap transaction is to be adopted as a priority so as to ensure that the hedging against risks is properly performed subject to the reasonable foreign debt maturity. Meanwhile, the Company might choose appropriate market timing to commence forward exchange and option transactions at a favorable forward price based on the analysis on short-term trends of exchange rate in the market.

III. BUSINESS SCALE

As of the date of this announcement, the balance of foreign debts of the Company amounts to approximately JPY41.0 billion and US$1 billion, which are exposed to exchange risks. The cap of the derivative trading in respect of the foreign debt exchange risks of the Company in 2017 will be capped by the said balance of foreign debts.

The cap of the derivative trading in respect of the risks relating to loan interest rate in US dollar for overseas projects will be capped by the amount of loan facility. According to the financing plan for the Indonesia power generation projects of the Company, the total contractual amount of loans in US dollar with floating interest rate to be signed is approximately US$1.84 billion. The cap of the derivative trading in respect of the interest rate risks relating to additional loans in US dollar with floating interest rate of the Company in 2017 will be capped by the amount of the additional loans in US dollar with floating interest rate. Such cap is subject to the approval within the scope of authorization by the board of directors, which is determined based on the principle of matching between assets and income of debtor and actual market situation.

The Company does not have any plan to expand the trading scale of the said business by means of any leveraged instruments.

IV. RISK ANALYSIS

1. Market risks: Whenever the trend of market exchange rate or interest rate substantially deviates from expectation, the hedging transaction cost paid by the Company in advance for the purpose of restricting exchange risk to some extent might be higher than the exchange loss that would have been incurred if no hedging transactions were made, which would increase the financial cost. In addition, a relatively large fluctuation in exchange rates could lead to a substantial change in the fair value of the relevant financial derivatives. In the event that the existing debts are not completely hedged, the book gain or loss of the Company could be affected to a certain extent.

2. Credit risks: In the event that credit default is made by the designated counterparty to the financial derivative trading and the settlement is not made according to the agreed price or amount, the Company might fail to cover the exchange loss incurred in capital repayment of foreign currency debts together with interest thereon by means of hedging transactions.

3. Operating risks: In the course of financial derivative trading, transaction losses might be incurred due to any inaccuracy or untimely decision in respect of a deal arising from either subjective or objective factors such as manual operating fault or defect of the internal control system.

V. RISK CONTROL MEASURES

1. The objectives and principles of uses of financial derivatives are well-defined and the Company will stick to the aim of capital preservation by way of hedging. Leveraging in full the advantages of financial derivatives in terms of hedging and transfer of foreign debt exposure, all speculative transactions involving high risks are prevented. Regarding the use of tools, the Company strictly adheres to the principles of exchange proportion, hedging by establishing counter positions, balanced gains and losses, simplicity and systematic transactions.

2. In compliance with the relevant laws and regulations and provisions of the Articles of Association, the Company strengthens its internal control system on exchange risks, formulates methods and procedures for the sound management system of financial derivative trading, well defines the power and duties involved in the approval and operation of business transactions, stringently separates the personnel of internal control, trading, accounting and audit so as to ensure the compliance and effectiveness of every financial derivative trade.

3. The Company only conducts its financial derivative business with prominent and large-scale commercial banks with the qualification of legitimate operations and high credit ratings.

VI. PRINCIPLES OF ACCOUNTING AND AUDITING

The Company will strictly comply with the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance as well as the auditing requirements on financial instruments in the guidance thereof and conduct corresponding audits for the contemplated foreign exchange derivatives trading business.

The investors are reminded that after the Annual Business Plan for Financial Derivatives is approved by the board of directors of the Company, the Company may conduct the financial derivatives trading business under the current development trend of the market exchange rates and interest rates as well as the expectation of volatility of such rates, but the Company is not obliged to conduct the financial derivatives business in 2017.

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

Beijing, 23 December 2016

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