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

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

(Stock Code: 1072)

RESULTS ANNOUNCEMENT FOR THE YEAR 2017 AND PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

FINANCIAL HIGHLIGHTS

- Total operating revenue of the Company in 2017 amounted to RMB30.830 billion, representing a decrease of 7.38% as compared with the corresponding period of 2016;
- Net profit attributable to the shareholders of the Company in 2017 amounted to RMB673 million, representing an increase of 137.72% as compared with the corresponding period of 2016;
- Earnings per share of the Company in 2017 were RMB0.29;
- New orders of the Company in 2017 were approximately RMB32.090 billion.

The board of directors (the "**Board**") of Dongfang Electric Corporation Limited (the "**Company**") announces that the audited annual results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**") prepared in accordance with the China Accounting Standards for Business Enterprises:

I. FINANCIAL INFORMATION

Consolidated Statement of Financial Position
31 December 2017

Unit: Yuan Currency: RMB

Item	*Notes*	Closing balance	Opening balance
Current Assets:			
Cash and cash equivalents		**27,884,046,603.94**	28,408,778,336.14
Clearing provision			
Funds for lending			
Financial asset at fair value through profit or loss		**33,803,471.54**	59,661,930.59
Derivative financial assets			
Notes receivable		**4,752,177,701.45**	4,917,792,022.12
Accounts receivable	*2*	**13,178,789,738.42**	15,954,481,388.79
Prepayments		**2,299,993,754.57**	2,513,937,554.91
Premiums receivable			
Amounts receivable under reinsurance contracts			
Reinsurer's share of insurance contract reserves			
Interest receivable		**433,925,963.42**	373,159,473.91
Dividends receivable		**37,326,557.40**	
Other receivable	*3*	**193,376,778.19**	245,140,412.85
Financial assets purchased under resale agreements			
Inventories		**18,580,902,608.25**	19,871,046,530.61
Assets as held for sale			
Non-current assets due within one year			
Other current assets		**308,183,730.38**	293,077,796.09
Total Current Assets		**67,702,526,907.56**	72,637,075,446.01

Unit: Yuan Currency: RMB

Item	*Notes*	Closing balance	Opening balance
Non-current Assets:			
Loans and advances			
Financial assets available-for-sale		**3,749,287.10**	3,100,000.00
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments		**1,405,332,262.56**	1,447,245,662.23
Investment properties		**133,306,409.31**	111,942,870.46
Fixed assets		**6,505,695,488.59**	7,617,279,165.25
Constructions in process		**206,307,683.13**	107,598,422.31
Construction materials		**113,464.96**	113,464.96
Fixed assets on disposal		**31,490.53**	48,257.24
Productive biological assets			
Oil and gas assets			
Intangible assets		**838,591,765.02**	911,701,102.64
Development expenditure			
Goodwill			
Long-term deferred expenses		**590,304.64**	1,075,608.94
Deferred tax assets		**2,124,520,659.16**	1,864,994,092.61
Other non-current assets			426,208.77
Total Non-current Assets:		**11,218,238,815.00**	12,065,524,855.41
TOTAL ASSETS		**78,920,765,722.56**	84,702,600,301.42

Unit: Yuan Currency: RMB

Item	*Notes*	Closing balance	Opening balance
Current Liabilities			
Short-term Loans		**201,628,570.50**	284,500,000.00
Loans from the central bank			
Customer deposits and deposits from banks and other financial institutions			
Taking from banks and other financial institutions			
Financial liability at fair value through profit or loss			10,372,195.96
Derivative financial liabilities			
Notes Payable		**3,581,962,289.62**	5,276,331,920.02
Accounts Payable	*4*	**14,235,492,932.32**	14,380,312,585.36
Receipts in advance		**31,462,626,469.25**	35,566,439,682.61
Financial assets sold under repurchase agreements			
Fees and commissions payable			
Employee benefits payable		**570,752,932.84**	427,869,549.45
Taxes payable		**251,459,401.69**	566,207,934.48
Interest payable			736,111.11
Dividends payable		**2,823,100.25**	2,787,911.77
Other payables		**2,080,523,584.90**	1,965,909,372.89
Amounts payable under reinsurance contracts			
Insurance contract reserves			
Funds from securities trading agency			
Funds from underwriting securities agency			
Liabilities as held for sale			
Non-current liabilities due within one year		**528,320,000.00**	731,379,338.40
Other current liabilities		**58,496,817.17**	77,113,715.51
Total Current Liabilities		**52,974,086,098.54**	59,289,960,317.56

Unit: Yuan Currency: RMB

Item	*Notes*	Closing balance	Opening balance
Non-current Liabilities:			
Long-term borrowings		**42,040,000.00**	536,940,000.00
Bonds payable			
Including: Preferred stock			
Perpetual capital securities			
Long-term payables			16,537,992.70
Long-term accrued payroll		**693,858,523.44**	462,107,103.50
Special payables		**58,062,614.63**	58,062,614.63
Provisions		**1,940,465,672.69**	1,771,952,763.14
Deferred income		**436,328,932.70**	473,991,696.19
Deferred tax liabilities		**7,951,131.71**	7,292,893.73
Other non-current liabilities			
Total Non-current Liabilities		**3,178,706,875.17**	3,326,885,063.89
TOTAL LIABILITIES		**56,152,792,973.71**	62,616,845,381.45
OWNERS' EQUITY:			
Share capital		**2,336,900,368.00**	2,336,900,368.00
Other equity instruments			
Including: Preferred stock			
Perpetual capital securities			
Capital reserves		**8,828,339,865.10**	8,828,262,489.81
Less: Treasury shares			
Other comprehensive income		**-29,584,534.90**	-28,762,895.01
Special reserves		**50,058,542.99**	45,314,931.41
Surplus reserves		**774,913,922.16**	769,092,997.56
General risk reserves			
Retained profits	*5*	**9,860,742,495.27**	9,193,484,301.02
Total owners' equity attributable to equity holders of the Company		**21,821,370,658.62**	21,144,292,192.79
Minority shareholder's equity		**946,602,090.23**	941,462,727.18
Total owners' equity attributable to equity holders of the Company		**22,767,972,748.85**	22,085,754,919.97
TOTAL LIABILITIES AND OWNERS' EQUITY		**78,920,765,722.56**	84,702,600,301.42

Consolidated Income Statement

For the year 2017

Unit: Yuan *Currency: RMB*

Item		Notes	Amount for the current period	Amount for the prior period
I.	**Total revenue**		**30,830,230,430.91**	33,285,723,808.34
	Including: Operating income	6	**30,830,230,430.91**	33,285,723,808.34
	Interest income			
	Premium earned			
	Fee and commission income			
II.	**Total operating costs**		**30,508,303,400.76**	35,521,296,310.11
	Including: Operating costs	6	**25,303,291,905.04**	29,277,766,070.66
	Interest expenses			
	Fee and commission expenses			
	Surrenders			
	Claims and policyholder benefits (net of amounts recoverable from reinsurers)			
	Changes in insurance contract reserves (net of reinsurers' share)			
	Insurance policyholder dividends			
	Expenses for reinsurance accepted			
	Business tax and levies		**308,683,449.73**	377,711,750.58
	Sales expenses		**853,935,326.72**	1,446,957,948.09
	Administrative expenses		**3,609,864,117.73**	3,562,680,183.45
	Financial expenses		**-309,694,581.56**	-641,457,176.95
	Impairment loss of assets		**742,223,183.10**	1,497,637,534.28
	Add: Gains from changes in fair values (Losses are indicated by "-")		**-5,632,511.92**	-4,895,327.47
	Investment income (Loss is indicated by "-")		**185,713,546.96**	244,534,695.61
	Including: Income from investments in associates and joint ventures		**177,430,326.44**	246,351,801.03
	Gains from disposal of assets (Losses are indicated by "-")		**16,950,674.48**	-5,436,906.96
	Foreign exchange gains (Losses are indicated by "-")			
	Other income		**101,303,233.23**	

Unit: Yuan   Currency: RMB

Item		*Notes*	**Amount for the current period**	Amount for the prior period
III.	**Operating profit (Loss is indicated by "-")**		**620,261,972.90**	-2,001,370,040.59
	Add: Non-operating income		**216,438,522.39**	216,016,469.23
	Less: Non-operating expenses		**303,277,177.92**	158,710,436.29
IV.	**Total profit (Total loss is indicated by "-")**		**533,423,317.37**	-1,944,064,007.65
	Less: Income tax expenses	*7*	**-149,646,382.09**	-184,625,607.38
V.	**Net profit (Net loss is indicated by "-")**		**683,069,699.46**	-1,759,438,400.27
	1. Classified by continuing operating			
	(1) Net profit from continuing operations (net loss indicated by "-")		**683,069,699.46**	-1,759,438,400.27
	(2) Net profit of discontinued operations (net loss indicated by "-")			
	2. Classified by ownership			
	(1) Profit or loss attributable to minority interests		**9,990,580.61**	24,868,404.49
	(2) Net profit attributable to shareholders of parent Company		**673,079,118.85**	-1,784,306,804.76
VI.	**Other comprehensive income (net of tax)**		**-821,732.66**	5,330,615.51
	Net OCI attributable to Owners of the Company		**-821,639.89**	5,330,838.03
	1. OCI that will not be reclassified to profit and loss			
	(1) Actuarial gains and losses on defined benefit plans recognized			
	(2) Shares of OCI by equity method that will not be reclassified to profit and loss			

Unit: Yuan Currency: RMB

Item		*Notes*	**Amount for the current period**	Amount for the prior period
	2. OCI that will be reclassified to profit and loss		**-821,639.89**	5,330,838.03
	(1) Shares of OCI by equity method that will be reclassified to profit and loss			
	(2) Gain/loss on fair value of available-for-sale financial assets			
	(3) Gain/loss on reclassifying of investment held-to-maturity to available for-sale financial asset			
	(4) Gains and losses on derivatives held as cash flow hedges (only for effective portions)			
	(5) Foreign currency translation differences-foreign operation		**-821,639.89**	5,330,838.03
	(6) Others			
	Net other comprehensive income attribute to minority shareholders		**-92.77**	-222.52
VII.	**Consolidated income**		**682,247,966.80**	-1,754,107,784.76
	Consolidated income attributable to owners of parent company		**672,257,478.96**	-1,778,975,966.73
	Consolidated income attributable to minority interests		**9,990,487.84**	24,868,181.97
VIII.	**Earnings per share**			
	(1) Basic earnings per share	*8*	**0.29**	-0.76
	(2) Diluted earnings per share		**0.29**	-0.76

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

The Company's financial statements have been prepared on a going concern basis, and based on the actual transactions and matters incurred, in accordance with "Accounting Standards for Business Enterprises–Basic Standards" issued by Ministry of Finance of the People's Republic of China and the relevant specific accounting standards, Application Guidance for Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other relevant requirements (collectively, the "**Accounting Standards for Business Enterprises**"), as well as the disclosure requirements under *Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting* issued by the China Securities Regulatory Commission, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

(2) Going concern

The Company had a history in making profits and getting all necessary financial support. Accordingly, the Company considers that it's reasonable to prepare the financial statements on a going concern basis.

2. ACCOUNTS RECEIVABLE

Unit: Yuan Currency: RMB

Item name	Balance at the end of the Period	Balance at the beginning of the Period
Accounts receivable	**18,377,177,420.24**	21,621,594,717.31
Less: Provision for bad debts	**5,198,387,681.82**	5,667,113,328.52
Net amount	**13,178,789,738.42**	15,954,481,388.79

Ageing analysis of accounts receivable

Unit: Yuan   Currency: RMB

Aging	**Balance at the end of the Period**	Balance at the beginning of the Period
Within 1 year	**6,669,303,105.59**	7,793,619,803.77
1–2 years	**3,084,167,094.31**	4,273,983,361.46
2–3 years	**1,928,415,112.54**	2,309,986,085.52
3–4 years	**949,304,182.99**	1,008,046,862.66
4–5 years	**547,600,242.99**	568,845,275.38
Net amount	**13,178,789,738.42**	15,954,481,388.79

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

3. OTHER RECEIVABLES

Unit: Yuan   Currency: RMB

Item	**Amount at the end of the Period**	Amount as of the beginning of the year
Other receivables	**536,421,168.93**	587,690,918.36
Less: Provision for bad debts	**343,044,390.74**	342,550,505.51
Net amount	**193,376,778.19**	245,140,412.85

Aging analysis of other receivables

Unit: Yuan Currency: RMB

Aging	**Amount at the end of the Period**	Amount at the beginning of the year
Within 1 year	**87,138,780.09**	117,429,225.02
1-2 years	**38,136,764.67**	52,314,654.84
2-3 years	**42,147,988.83**	18,666,695.77
3-4 years	**6,847,678.24**	23,603,592.61
4-5 years	**17,393,314.36**	30,287,878.61
Over 5 years	**1,712,252.00**	2,838,366.00
Net amount	**193,376,778.19**	245,140,412.85

4. ACCOUNTS PAYABLE

Unit: Yuan Currency: RMB

Aging	**Balance at the end of the Period**	Balance at the beginning of the Period
Within one year	**12,763,385,380.90**	9,246,484,205.53
1–2 years	**231,727,656.50**	2,992,948,671.28
2–3 years	**286,352,369.51**	1,033,600,357.97
Over 3 years	**954,027,525.41**	1,107,279,350.58
Total	**14,235,492,932.32**	14,380,312,585.36

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

5. UNDISTRIBUTED PROFITS

Unit: Yuan Currency: RMB

Item	This period	Last period
Balance before adjustment at the end of preceding period	**9,193,484,301.02**	11,156,346,701.91
Add: Increase due to adjustment (or less: decrease)		
Opening balance after adjustment	**9,193,484,301.02**	11,156,346,701.91
Add: Net profit attributable to owners of the parent company	**673,079,118.85**	-1,784,306,804.76
Less: Appropriation of statutory surplus reserve	**5,820,924.60**	38,341,574.05
Appropriation of discretionary surplus reserve		
Appropriation of general risk reserve		
Dividend payable on ordinary shares		140,214,022.08
Dividend on ordinary share converted to share capital		
Closing balance	**9,860,742,495.27**	9,193,484,301.02

6. OPERATING REVENUE AND OPERATING COST

Unit: Yuan Currency: RMB

Item	Amount for the current period		Amount for the prior period	
	Revenue	**Cost**	Revenue	Cost
Principal operation	**30,551,301,037.80**	**25,093,199,274.96**	33,108,359,821.73	29,164,503,964.42
Other operations	**278,929,393.11**	**210,092,630.08**	177,363,986.61	113,262,106.24
Total	**30,830,230,430.91**	**25,303,291,905.04**	33,285,723,808.34	29,277,766,070.66

7. INCOME TAX EXPENSE

Unit: Yuan Currency: RMB

Item	Amount for the current period	Amount for the prior period
Income tax expense for current period	**109,221,959.00**	140,616,398.23
Deferred income tax expense	**-258,868,341.09**	-325,242,005.61
Total	**-149,646,382.09**	-184,625,607.38

8. EARNINGS PER SHARE

(1) Basic earnings per share

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

Unit: Yuan Currency: RMB

Item	This year	Last year
Combined net profit attributable to Parent Company's shareholders of ordinary shares	**673,079,118.85**	-1,784,306,804.76
Combined net profit attributable to Parent Company's shareholders of ordinary shares (after deducting non-recurring profit or loss)	**491,803,164.84**	-1,982,592,343.89
Weighted average number of outstanding ordinary shares of Parent Company	**2,336,900,368.00**	2,336,900,368.00
Basic earnings per share	**0.29**	-0.76
Basic earnings per share (after deducting non-recurring profit or loss)	**0.21**	-0.85

Process of calculating the weighted average number of ordinary shares:

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

(2) Diluted earnings per share

Since there was no dilution effect on the share equity during the Period (no dilution effect during the same period of the previous year), the diluted earnings per share equals to the basic earnings per share.

9. SEGMENT INFORMATION

Segment information of 2017

Unit: Yuan Currency: RMB

Item	High-efficient cleaning power generation equipment	New energy	Hydroenergy and environmental protection equipment	Engineering and service	Others	Write-off	Total
Operating income	32,588,764,836.82	6,401,073,304.02	2,132,638,092.59	4,455,407,463.81	389,956,589.40	15,137,609,855.73	30,830,230,430.91
Including: External transaction income	20,773,547,451.72	3,932,148,630.63	1,998,768,400.55	3,846,836,554.90	278,929,393.11		30,830,230,430.91
Inter-segment transaction income	11,815,217,385.10	2,468,924,673.39	133,869,692.04	608,570,908.91	111,027,196.29	15,137,609,855.73	
Operating cost	28,956,974,166.76	5,639,914,692.92	1,740,289,888.70	3,822,041,753.73	321,119,826.37	15,177,048,423.44	25,303,291,905.04
Cost written off	11,837,120,489.17	2,517,764,044.19	77,069,803.22	634,066,890.57	111,027,196.29	15,177,048,423.44	
Expenses for the period					4,082,678,915.00	-71,425,947.89	4,154,104,862.89
Operating profit (loss)	3,631,790,670.06	761,158,611.10	392,348,203.89	633,365,710.08	-4,013,842,151.97	784,559,070.26	620,261,972.90
Total assets					114,773,708,236.59	35,852,942,514.03	78,920,765,722.56
Including: Amount of substantial impairment loss on a single asset							
Total liabilities					80,925,378,835.01	24,772,585,861.30	56,152,792,973.71
Supplemental information							
Capital expenditure							
Recognized impairment loss of the current period					1,086,734,072.30	344,510,889.20	742,223,183.10
Including: Amortization of impairment of goodwill							
Depreciation and amortization expenses					993,507,704.83		993,507,704.83
Non-cash expenses other than impairment loss, depreciation and amortization							

Segment information of 2016

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

10. LONG-TERM EQUITY INVESTMENTS

Unit: Yuan Currency: RMB

Invested companies	Balance at the beginning of the year	Increase/decrease in the Period: Follow-on investment	Reduced investment	Recognized investment loss / gain by equity method	Adjustment to other comprehensive income	Change sin other equity	Announcement of delivery of cash dividends or profit	Others	Balance at the end of the Period	Provision for impairment in the Period	Balance provided for impairment at the end of the Period
1. .Investment in subsidiaries											
Dongfang Electric New Energy Equipment (Hangzhou) Co., Ltd.								409,363,000.00	409,363,000.00	409,363,000.00	409,363,000.00
Subtotal								409,363,000.00	409,363,000.00	409,363,000.00	409,363,000.00
2. Joint ventures											
MHPS Dongfang Boiler Co., Ltd.	183,179,419.44			11,756,171.75		77,635.28	3,347,961.43		191,665,265.04		
Dongfang Areva Nuclear Pump Co., Ltd.	280,278,203.62			34,341,047.98			104,996,971.70		209,622,279.90		
Subtotal	463,457,623.06			46,097,219.73		77,635.28	108,344,933.13		401,287,544.94		
3. Associated companies											
Mitsubishi Heavy Industries Dongfang Gas Turbine (Guangzhou) Co., Ltd.	590,105,139.26			95,945,704.36			114,870,982.00	11,669,708.51	582,849,570.13		
Leshan city Dongle Heavy Piece Handling Co., Ltd.	26,025,554.98			1,778,145.98					27,803,700.96		
Liangshan Fengguang New Energy Operation and Maintenance Co., Ltd. *(note 1)*		2,000,000.00		-3,115.52					1,996,884.48		
Sichuan Wind Power Industry Investment Co., Ltd.	242,443,940.15			21,737,695.68			8,625,154.77		255,556,481.06		
Huadian Longkou Wind Power Co., Ltd.	46,581,863.35		1,250,000.00	5,127,948.72					50,459,812.07		
Inner Mongolia Energy Power Hongnijing Wind Power Co., Ltd.	15,834,151.53			4,012,805.49					19,846,957.02		
CLP Combined Heavy Gas Turbine Technology Co., Ltd.	11,475,134.69			196,883.00					11,672,017.69		
Inner Mongolia Mengneng Sanshengtai Wind Power Co., Ltd.	16,000,000.00			2,537,039.00					18,537,039.00		
Inner Mongolia Mengneng Wulan New Energy Co., Ltd.	35,322,255.21								35,322,255.21		
Subtotal	983,788,039.17	2,000,000.00	1,250,000.00	131,333,106.71			123,496,136.77	11,669,708.51	1,004,044,717.62		
Total	1,447,245,662.23	2,000,000.00	1,250,000.00	177,430,326.44		77,635.28	231,841,069.90	421,032,708.51	1,814,695,262.56	409,363,000.00	409,363,000.00

Note: 1. Founded on 17 November 2016, Liangshan Fengguang New Energy Operation and Maintenance Co., Ltd. (referred as "**Liangshan Fengguang New Energy**") was jointly established by Dongfang Wind Power Co., Ltd., Liangshan State-owned Investment Development Co. Ltd., Xichang Co., Engineering, Sichuan Xichang Electric Power Co. Ltd., and Sichuan Guoke IoT Co. Ltd. Its registered capital is RMB10 million, of which Dongfang Wind Power Co., Ltd. accounts for RMB2 million, representing 20% of the registered capital. Liangshan Fengguang New Energy is principally engaged in wind power generation, photovoltaic power generation, electricity transfer engineering and conversion and electricity transfer design, consultation, installation, checking, testing and maintenance. Dongfang Wind Power Co., Ltd. has the power to and in actual has appointed representatives to act as directors and supervisors for Liangshan Fengguang New Energy. It is considered to have material influence on the business operation of Liangshan Fengguang New Energy so that Liangshan Fengguang New Energy is regarded as an associated company and is accounted for under equity method.

Other explanations:

Hangzhou New Energy Co., Ltd. was originally a wholly-owned subsidiary of DEC Dongfang Electric Machinery Company Limited. Hangzhou New Energy Co., Ltd. has terminated its business operation and has made continuous loss since establishment in May 2008. In May 2017, upon application by Dongfang Electrical Control Equipment Co., Ltd., the People's Court of Hangzhou Xiaoshan District issued the written judgment ([2017] Zhe 0109 Po No. 22) adjudicate Hangzhou New Energy Co., Ltd. to be bankrupt and liquidate according to law, with Zhejiang Zeda Law Firm being designated as the bankruptcy administrator. Therefore, Hangzhou New Energy Co., Ltd. will ceased to be consolidated in the current period. Please refer to the announcement published by the Company on 13 June 2017 for details.

11. NET CURRENT ASSETS

Unit: Yuan Currency: RMB

Item	**Closing balance**	Opening balance
Current assets	**67,702,526,907.56**	72,637,075,446.01
Less: current liabilities	**52,974,086,098.54**	59,289,960,317.56
Net current assets	**14,728,440,809.02**	13,347,115,128.45

12. TOTAL ASSETS LESS CURRENT LIABILITIES

Unit: Yuan Currency: RMB

Item	**Closing balance**	Opening balance
Current assets	**78,920,765,722.56**	84,702,600,301.42
Less: current liabilities	**52,974,086,098.54**	59,289,960,317.56
Total assets less current liabilities	**25,946,679,624.02**	25,412,639,983.86

13. DIVIDENDS

The Board proposes not to distribute any dividend or profit for the year 2017.

II. MANAGEMENT DISCUSSION AND ANALYSIS

1. REVIEW ON THE OVERALL OPERATION DURING THE REPORTING PERIOD

Operation Overview during the Reporting Period

Year 2017 witnessed a rigorous and complicated macro-economy with a sluggish coal power market and a downturn in industrial efficiency. Under these circumstances, the Company insisted on the guide of Socialism with Chinese Characteristics for a New Era, earnestly implemented the spirit of the 19th National Congress of the Communist Party of China, and carried out an in-depth research and analysis of the impact of Chinese "De-capacity" policy in the coal power industry on projects, struck a new way under frustrations and hardships, adapted to the changing circumstances swiftly and creatively by firmly upholding corporate spirits as a whole, and made efforts on restructuring and upgrading to become stronger and better. Upon all these, the Company turned loss into profit, reversing the passive situation from a downturn in profit for consecutive three years to a net profit attributable to the owner of parent company of RMB673 million for the year, completing power generation equipment with capacity 30,477.2 MW and new effective orders increased by RMB32.090 billion for the year.

Of which export orders aggregated to RMB2.026 billion. Among the new orders, 54% was attributable to high-efficient cleaning energy, 9% to new energy, 19% to water energy and environmental protection, and 18% to engineering and services. As at the end of 2017, the Company had orders in hand of RMB85.8 billion, of which high-efficient cleaning energy accounted for 55%, new energy accounted for 16%, water energy and environmental protection accounted for 14%, and engineering and services accounted for 15%. Export orders accounted for 19% of the orders in hand.

For thermal power, market share in the large and medium-sized thermal power markets remained above 40%, while Million-KW 630℃ module with ultra-supercritical double reheat features was awarded as national demonstration project. The Company won the bid for the 2×1,000MW ultra-supercritical double reheat module of Zhongxing Electric Power in Penglai that took the high ground in high-end thermal power technologies market. It also won the bid for fourteen 300MVar phase modifiers with market share accounting for 70%, which served to effectively alleviate the shortage in orders placed upon conventional thermal power projects.

For hydropower, market share amounted to over 50%. The Company recorded repeated success in pumped-storage mechanism orders by winning the bid of 4 sets of 300MW pumped-storage module in Fengning Phase II and Yimeng following its successful bid for Changlongshan 4 sets of 350MW Francis type hydropower generating units, thus consolidating its edge in the pumped-storage module market.

For nuclear power, the Company saw a rise in its stable market share. The Company was awarded the contract of technical design and testing and verification on the four major heat exchangers of CFR600 demonstration fast-reactor (the fourth generation representative of nuclear power), signed a general purchase contract for ACPR50S experimental reactor primary equipment, and won the bid for 6 sets of "Hualong No. 1" components for reactor units and two control rod drivers. The Company made a breakthrough in AP1000 IHP orders and was awarded the Lianjiang TG contract (the only TG project in the nuclear power market for the year).

For steam power, the Company won the bid for both the Beijiao and Huadu projects of Guodian among five determined bid with market share of F-grade generating units exceeding 40%.

For wind power, the Company won the bid for the 1010MW-fixed project quota of Datang Corporation and attained the 100MW batch production orders for the first time of Ultra-low wind speed 2MW-127 module.

For service sector, new effective orders of the Company exceeded RMB3 billion. In addition, for optothermal power generating sector, the Company made a great breakthrough in the first batch national demonstration project of solar and optothermal power and signed a contract in relating to heat collecting system and steam generators for Hami molten salt tower-typed 50MW optothermal power generating project.

Remarkable progress in quality and efficiency improvement

During the year, the Company had in place an annual work scheme of quality and efficiency improvement and set up its annual indicators and goals for control and regulation, thus leading an evident improvement in work efficiency. In 2017, the Company recorded a decrease in cost ratio by 5.67% year on year with an increase in gross profit margin of principal operation by 5.96% year on year. Abnormal inventories decreased markedly as compared to the beginning of the year with regulation goals achieved for the year, which in turn reduced capital risk and saved capital cost.

Reducing purchase cost also achieved satisfactory results. The Company streamlined the purchase management system and set up a new mechanism for purchase by tender characterized by "separation of supervision and operation, separation of tender and purchase, standardization and efficiency" during the year. The Company worked to further reduce purchase cost with a centralized purchase rate of over 96% so as to reduce purchase cost.

Fruitful technical innovation

The research, development and demonstration project of 600MW ultra supercritical fluidized bed boiler technology of Dongfang boiler was awarded the first prize (universal projects) of National Award for Science and Technology Progress 2017. The Dongfang Electrical was awarded the only special prize of the scientific and technological progress in Sichuan Province for its "Research and Development on Giant Tubular Hydro-generating Unit Key Technology and Gerry Power Plant" project, which fulfilled the accomplishment of an award in mechanical category that the Group had not received for over ten years.

Impressive achievements made in research, development and innovation of major products. In respect to coal power, Major breakthroughs were made in 1000MW class 630℃ double reheat demonstration project,which was awarded as demonstration project by National Energy Administration. In respect to nuclear power, the Company completed the development of its third generation nuclear power CAP1400 and Hualong No.1 steam generator, steam turbines and electric generator successively, whose main performance reach the leading level in the world. As to hydropower, the Company took up the construction of the first generating unit of Baihetan 1,000MW mega hydropower generating units, and the self-developed model runner of Changlong mountain pumped storage units, ranking the first in China in terms of height, was possessed of excellent hydraulic performance which enables itself to occupy the commanding heights in the field of 700m hydraulic head pumped storage technology and won the first place in the competition with first-class enterprises. As to steam power, F5 combined cycle unit, the most advanced in China, was put into operation in Huaneng Gaobei Plant successfully, which indicates that thermal power generators of DEC is the most advanced in China. The model machine of 50000kw heavy-duty thermal power generators was in the mill. We took an active part in the development of heavy-duty thermal power generators.

2. ANALYSIS OF PRINCIPAL BUSINESS

I. Major operation conditions during the Reporting Period

During the Reporting Period, in accordance with the China Accounting Standards for Business Enterprises, the Company recorded a total operating revenue of RMB30.830 billion; net profit attributable to the shareholders of the Company of RMB673 million, representing an increase of 137.72% over the same period of last year; earnings per share of RMB0.29; and the gross profit margin for principal operations was 17.87%, representing an increase of 5.96 percentage points compared with last year.

Reasons for profitable results of the Company in 2017 were as follows:

1. Principal business effect. During the year, the Company implemented the "lowering costs project", strengthened internal management and devoted great efforts to cost reduction and efficiency enhancement, which achieved a better result in improving procurement concentration. In particular, costs of procurement for the year reduced by over 6%, which resulted in a significant increase in the profitability of the principal business.

2. Selling expenses effect. Selling expenses of the Company for this Year recorded RMB854 million, representing a decrease of 40.48% as compared with the corresponding period of last year. The decrease was mainly due to the year-on-year decrease in income from wind power of the Company, decrease in quality deposit provided in proportion to operating income as compared with the previous year, and in addition, the base for the provision of quality assurance fee of wind power products was larger, thereby resulting in a larger decrease as compared to the previous year.

3. Asset impairment loss effect. Provision for asset impairment losses of the Company for this Year recorded RMB742 million, representing a decrease of 50.44% as compared with the corresponding period of last year. The decrease was mainly due to the Company's great efforts on the collection of receivables and recovery of payments for goods which have been proved effective and resulted in a decrease of approximately RMB698 million in the provision for losses on bad debts as compared with the previous year.

(I) Analysis of Principal Business

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

Unit: Yuan Currency: RMB

Item	Amount for the Period	Amount for t he same period of the previous year	Change (%)
Operating revenue	**30,830,230,430.91**	33,285,723,808.34	-7.38
Operating cost	**25,303,291,905.04**	29,277,766,070.66	-13.58
Selling expenses	**853,935,326.72**	1,446,957,948.09	-40.98
Administrative expenses	**3,609,864,117.73**	3,562,680,183.45	1.32
Finance costs	**-309,694,581.56**	-641,457,176.95	51.72
Net cash flows from operating activities	**450,239,494.68**	8,965,090,194.05	-94.98
Net cash flows from investing activities	**-44,245,507.11**	-443,004,675.55	90.01
Net cash flows from financing activities	**-818,425,526.80**	-1,373,686,177.28	40.42
Research and development expenses	**1,196,468,795.69**	1,285,959,003.86	-6.96

1. Analysis of revenue and cost

(1) Principal operations by industry, product and region

Unit: Yuan Currency: RMB

Principal operations by industry						
Industry	**Operating revenue**	**Operating costs**	**Gross profit margin** (%)	**Year-on-year increase/ decrease in operating revenue** (%)	**Year-on-year increase/ decrease in operating costs** (%)	**Year-on-year increase/ decrease in gross profit margin** (%)
Power generation equipment industry	30,551,301,037.80	25,093,199,274.96	17.87	-7.72	-13.96	5.96

Principal operations by product

Product	Operating revenue	Operating costs	Gross profit margin (%)	Year-on-year increase/ decrease in operating revenue (%)	Year-on-year increase/ decrease in operating costs (%)	Year-on-year increase/ decrease in gross profit margin (%)
High-efficient cleaning power generation equipment	20,773,547,451.72	17,119,853,677.59	17.59	5.59	3.40	1.75
New energy	3,932,148,630.63	3,122,150,648.73	20.60	-50.46	-56.51	11.06
Hydropower and environmental protection equipment	1,998,768,400.55	1,663,220,085.48	16.79	24.59	-0.57	21.06
Engineering and services	3,846,836,554.90	3,187,974,863.16	17.13	-1.18	-15.10	13.59

Principal operations by region

Region	Operating revenue	Operating costs	Gross profit margin (%)	Year-on-year increase/ decrease in operating revenue (%)	Year-on-year increase/ decrease in operating costs (%)	Year-on-year increase/ decrease in gross profit margin (%)
Domestic	26,403,334,557.97	21,628,015,468.37	18.09	-10.34	-14.82	4.31
Overseas	4,147,966,479.83	3,465,183,806.59	16.46	13.37	-8.18	19.61

(1) In general, the Company operated stably this year. However, under the effect of macro-economy, the revenue of new energy segment decreased significantly. The revenue of principal operations this year decreased year-on-year by 7.72%.

(2) The operating revenue from high-efficient cleaning power generation equipment during the year increased by 5.59%, as compared with the same period of last year, which was mainly attributable to the increase of sales of thermal power, gas turbine and nuclear power conventional island products. The gross profit margin of high-efficient cleaning power generation equipment increased slightly in the year, due to various measures of "cost-driven program" taken by the Company.

(3) The revenue from new energy products during the year decreased by 50.46% as compared with the same period of last year, mainly due to the decrease of 59.00% in revenue of the wind power products. The gross profit margin of the new energy recorded a year-on-year increase of 11.06 percentage points, which was primarily resulted from the relative increase in revenue in the proportion of nuclear power products which has higher profitability in the year.

(4) The revenue from hydropower and environmental protection equipment increased by 24.59% as compared with the same period of last year, mainly due to the increase of 67.59% in sales revenue of hydropower products; meanwhile, the sales revenue of environmental protection equipment declined by 7.72%. The gross profit margin of this segment increased by 21.06 percentage points, which was mainly caused by the loss recorded in some hydropower projects.

(5) Revenue from construction and services for the year decreased by 1.18%, which is largely in line with last year. The gross profit margin of engineering and services projects recorded a year-on-year increase of 13.59 percentage points due to the higher gross profit margin of some engineering projects.

(2) Cost analysis

Unit: RMB

By industry

Industry	Cost composition	Amount for the period	As a percentage in total costs for the period (%)	Amount for the corresponding period of last year	Percentage in total costs the corresponding period of last year (%)	Year-on-year increase/ decrease (%)
Power generation equipment manufacturing and services	Raw materials and purchased parts	19,603,343,484.57	78.12	23,305,451,013.34	79.91	-15.89
Power generation equipment manufacturing and services	Direct labour costs	936,266,784.91	3.73	1,265,166,706.49	4.34	-26.00
Power generation equipment manufacturing and services	Manufacturing costs	4,553,589,005.48	18.15	4,593,886,244.59	15.75	-0.88
Power generation equipment manufacturing and services	Total	25,093,199,274.96	100.00	29,164,503,964.42	100	-13.96

By product

Product	Cost composition	Amount for the period	As a percentage in total costs for the period (%)	Amount for the corresponding period of last year	Percentage in total costs the corresponding period of last year (%)	Year-on-year increase/ decrease (%)	Remark
High-efficient cleaning power generation equipment	Raw materials	14,624,470,081.06	85.42	14,229,603,437.18	85.94	2.77	
High-efficient cleaning power generation equipment	Labor costs	589,798,329.56	3.45	737,905,782.15	4.46	-20.07	
High-efficient cleaning power generation equipment	Other costs	1,905,585,266.97	11.13	1,589,926,318.87	9.60	19.85	
High-efficient cleaning power generation equipment	Sub-total	17,119,853,677.59	100.00	16,557,435,538.20	100.00	3.40	
New energy	Raw materials	1,730,937,122.16	55.44	5,582,619,670.79	77.76	-68.99	
New energy	Labor costs	116,738,642.39	3.74	240,312,238.91	3.35	-51.42	
New energy	other costs	1,274,474,884.18	40.82	1,356,301,125.30	18.89	-6.03	
New energy	Sub-total	3,122,150,648.73	100.00	7,179,233,035.00	100.00	-56.51	
Hydropower and environmental	Raw materials	1,289,517,803.06	77.53	1,332,099,370.66	79.64	-3.20	
Hydropower and environmental	Labor costs	96,824,295.93	5.82	115,423,795.77	6.90	-16.11	
Hydropower and environmental	Other costs	276,877,986.49	16.65	225,168,687.86	13.46	22.96	
Hydropower and environmental	Sub-total	1,663,220,085.48	100.00	1,672,691,854.29	100.00	-0.57	
Engineering and services	Raw materials	1,958,418,478.29	61.43	2,161,128,534.71	57.55	-9.38	
Engineering and services	Labor costs	132,905,517.03	4.17	171,524,889.66	4.57	-22.52	
Engineering and services	Other costs	1,096,650,867.84	34.40	1,422,490,112.56	37.88	-22.91	
Engineering and services	Sub-total	3,187,974,863.16	100.00	3,755,143,536.93	100.00	-15.10	

(3) Major customers in sales

The Company's sales from its top five customers amounted to RMB4.793 billion, accounting for 15.53% of the total sales for the year, among which, sales to connected parties was nil, representing nil of the total sales for the year.

(4) Major suppliers

The Company's procurement from its top five suppliers amounted to RMB1.630 billion, accounting for 7.06% of the total procurement for the year, among which, the procurement from connected parties was RMB1.011 billion, representing 4.38% of the total Procurement for the Year.

2. *Expenses*

Item	**Amount for the year**	Amount for last year	Change *(%)*
Selling expenses	**853,935,326.72**	1,446,957,948.09	-40.98
Administrative expenses	**3,609,864,117.73**	3,562,680,183.45	1.32
Finance costs	**-309,694,581.56**	-641,457,176.95	51.72
Income tax expenses	**-149,646,382.09**	-184,625,607.38	18.95

3. *R&D expenditure*

Unit: Yuan Currency: RMB

Expensed R&D expenditure for the period	1,196,468,795.69
Capitalized R&D expenditure for the period	0
Total R&D expenditure	1,196,468,795.69
Percentage of total R&D expenditure over revenue *(%)*	3.88
Number of R&D staff	1,744
Percentage of R&D staff over the total staffs *(%)*	10.12
Percentage of R&D expenditure capitalization *(%)*	0

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

1. Analysis of operating results

Unit: RMB

Item	**Amount for the year**	Amount for last year	Year-on-year increase/ decrease *(%)*
Operating revenue	**30,830,230,430.91**	33,285,723,808.34	-7.38
Selling expenses	**853,935,326.72**	1,446,957,948.09	-40.98
Administrative expenses	**3,609,864,117.73**	3,562,680,183.45	1.32
Finance costs	**-309,694,581.56**	-641,457,176.95	51.72
Impairment loss of assets	**742,223,183.10**	1,497,637,534.28	-50.44
Operating profit	**620,261,972.90**	-2,001,370,040.59	130.99
Total profit	**533,423,317.37**	-1,944,064,007.65	127.44
Income tax expenses	**-149,646,382.09**	-184,625,607.38	18.95
Net profit	**683,069,699.46**	-1,759,438,400.27	138.82
Net profit attributable to shareholders of the Parent Company	**673,079,118.85**	-1,784,306,804.76	137.72

(1) The operating revenue of the Company deceased year-on-year by 7.38% under the effect of macro-economic environment.

(2) The selling expenses of the Company decreased year-on-year by 40.98%, due to the decrease in provisions made for sales services as a result of a year-on-year decrease in revenue, and additional provisions made to the quality of products for sold projects of which warranty period has not expired after the reassessment on the book value of the estimated liabilities from wind power segments last year.

(3) The administrative expenses of the Company increased year-on-year by 1.32% mainly due to the increase in provision for the termination benefits resulted by more efforts put into the implementation of "streamlining plans".

(4) The finance costs of the Company increased year-on-year by 51.72%, mainly due to changes in net exchange gains and losses, the exchange gains for last year was RMB209 million last year compared to the exchange losses of RMB270 million for the current period.

(5) The operating profit of the Company increased year-on-year by 130.99%, total profit increased year-on-year by 127.44%, and net profit increased year-on-year by 138.82%,which were mainly attributable to the implementation of "reducing costs and improving efficiency", causing an increase of gross profit margin generated from principal businesses, a substantial year-on-year decrease of sales expense and the decrease in provisions for impairment loss of assets

2. *Analysis of assets, liabilities and shareholders' equity*

At the end of the year, the Company's total assets amounted to RMB78.921 billion, representing a decrease of 6.83% as compared with the beginning of the year, among which, a decrease of 6.49% and 17.40%were recorded in inventory and accounts receivable, respectively. Meanwhile, total liabilities amounted to RMB56.153 billion, representing a decrease of 10.32% as compared with the beginning of the year, mainly attributable to the decrease of 32.11% in notes payable. Shareholders' equity amounted to RMB22.768 billion in total, representing an increase of3.09% as compared with the beginning of the year, mainly attributable to the turnaround from the loss in the year.

3. *Gearing ratio*

Item	**As at the end of 2017**	As at the end of 2016	Year-on-year increase/ decrease *(percentage point)*
Gearing ratio *(%)*	**71.15**	73.93	-2.78

Gearing ratio of the Company was 71.15% at the end of the year, representing a decrease of 2.78percentage points as compared with the beginning of the year. The risk from assets structure of the Company is in a controllable state.

4. *Bank borrowings*

As at 31 December 2017, the Company had borrowings from financial institutions (banks) of RMB702 million due within one year and had no bank borrowings due beyond one year. The Company's borrowings and cash and cash equivalents are mainly dominated in RMB. In particular, RMB702 million were fixed-rate loans. The Company has maintained a favorable credit rating with banks and a sound financing capacity.

5. *Exchange risk management*

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

6. *Pledge of assets*

As at the end of the year, the Company had pledged borrowings of RMB144 million, which were related to borrowings from financial institutions secured by machinery, equipment, properties and land use rights. As at the end of the year, this part of borrowings was not mature and repayable.

(III) Main Sources and Uses of Funds

1. *Cash flows from operating activities*

   During the year, the Company had cash inflows generated from operating activities of RMB30.915 billion, mainly due to the recovery of payments for sales of products; cash outflows generated from operating activities of RMB30.465 billion, mainly due to the payments for purchase of raw materials; and net cash flows generated from operating activities of RMB450 million.

2. *Cash flows from investing activities*

   During the year, the Company had cash inflows generated from investing activities of RMB162 million, mainly due to the recovery of partial profit-making investments and dividends paid by associates; cash outflows generated from investing activities of RMB206 million, mainly due to the purchase of fixed assets; and net cash flows generated from investing activities of negative RMB44 million.

3. *Cash flows from financing activities*

   During the year, the Company had cash inflows generated from financing activities of RMB486 million, mainly due to the decrease of borrowings; cash outflows generated from financing activities of RMB1.304 billion, mainly due to the repayment for borrowings due and payments of borrowing interests; and net cash flows generated from financing activities of RMB818 million. As a result, the Company recorded a decrease in credit amount.

3. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT

(I) Structure and trend of the industry

1. Macro-economic environment

In terms of the macro situation, the global economy is still in the stage of deep consolidation, during which it shows the features such as slow growth, over-capacity, intensifying trade protectionism and increasing uncertainties. As the developed countries attach more importance to the manufacturing of high-end products, the layout of global manufacturing industry is significantly affected by the new production technological revolution which is dominated by informationized, intelligent and networking technologies. Domestically, the year of 2018 is the first year to put into practice the principles put forward by the 19th National Congress of the Communist Party. It is also a critical year in building on previous years' efforts and breaking new grounds in implementing the State's "13th Five-year" Plan. With the supply-side structural reform as its main task in 2018, the Government has made coordinated efforts to achieve steady growth, promote continued reform, make structural adjustments, improve people's livelihood and guard against economic risks. Great efforts have been made in promoting reform and opening up, innovation and improvement has been made in macroeconomic regulation, and efforts have been made in improve quality, efficiency and driving forces of economic growth. These efforts have promoted the sustainable and health development of the economy and society.

2. Development trend of the industry

According to the "13th Five-year Plan for Electricity Industry", the installed capacity of coal-fired power shall be controlled within 1,100 million by 2020, which means there will be very limited number of newly-approved thermal power projects during the 13th Five-year Plan Period. The 2018 National Energy Work Conference further specified the large-scale development of non-fossil energy as a strategic direction towards green development. Measures such as implementation of the Renewable Portfolio Standard, coordinated development of coal power and renewable energy power, involvement of self-use power plants in the consumption of renewable energy power will be adopted to promote clean development of energy, so as to basically solve the issue of hydro, wind and solar power curtailment across the country by 2020. With the transformation and development of the resource system, coal power will not only serve as security of power supply but also as a supplementary service in the future, so as to make room for and serve the development of clean energy. By the end of the "13th Five-year Plan" period, approximately 150 million KW of coal-fired power capacity will be cancelled or postponed across the country. 20 million KW of outdated coal-fired power production capacity will be eliminated, with the percentage of installed capacity of coal-fired power decreasing to approximately 55% of the total installed capacity.

The Guidelines of Energy Work in 2018 released by the National Energy Administration specified that the installed capacity of newly-constructed coal-fired power projects will be controlled at approximately 40 million KW, and 4 million KW of coal-fired power generation units with high pollution and energy consumption will be eliminated; active efforts will be made to facilitate the review and approval and construction of qualified nuclear power projects, with 6 to 8 sets of power generation units to be installed during the year; the installed capacity of newly-constructed hydropower projects is sought to reach 3 million KW; the installed capacity of newly-constructed wind power projects will reach approximately 25 million KW, with active efforts made to promote the construction of offshore wind power projects and accelerated development of distributed wind power projects; in terms of the solar power generation, the construction of PV power generation projects will be promoted, and the installed capacity of newly constructed PV power stations is expected to reach approximately 20 million KW, meanwhile, the construction of solar thermal power generation demonstration projects will be carried out in a steady manner and the installed capacity of newly-constructed solar thermal power generation projects is expected to reach approximately 0.5 million KW; the installed capacity of newly-constructed biomass power projects is expected to reach 1.5 million KW.

3. Competition of the industry

We are one of the three largest power generation equipment enterprises. From the perspective of competition in the power generation equipment industry, with a significant decline in the growth of demand for power generation during the "13th Five-year Plan" period, the installed capacity of power generation equipment grew at a lower rate coupled with the issue of overcapacity of power generation equipment, which further intensified the competition in the domestic power generation equipment market. In addition to the three major traditional power generation suppliers, the competitiveness of new entrants, in particular those in the new energy sector such as wind power and PV power has been continuously improved. Therefore, it is the key to corporate development to enhance market competitiveness by technologies, quality, services and cost control. Meanwhile, adapting to market demand changes through product transformation and upgrading is also the driving force of corporate development. In terms of the international market, the implementation of the "Belt & Road" Initiative and International Capacity Cooperation will bring about new development opportunities. However, new challenges will arise from market channels response, risk prevention, cost control and resource deployment in the international market and other international operation requirements.

(II) Development strategy of the Company

Development strategies of the Company:

1. Concentrating on one vision and achieving the Chinese dream of manufacturing energy equipment. Become China's GE and a world-class enterprise with international competitiveness, realize the Chinese dream of manufacturing energy equipment, supply electricity power to the world and bring brightness to the human society.

2. Realizing "Two-surpass". Shift the development mode from high speed growth to high quality development, and achieve leapfrog development of scale.

3. Securing a victory in the "three critical missions". Commit to the revitalization of the wind power business, expansion of modern services business and strengthen the international business.

4. Developing the four growth business. Develop the four growth business segments including "new energy business, international business, modern services business and emerging business".

5. Carrying out five major projects. Conduct the projects of "deepen reformation, scientific and technological innovation, quality improvement, costs reduction and management enhancement".

(III) Business plan of the Company

Opportunities and challenges coexist in 2018. On one hand, the domestic macro-economy has been steadily improved, and risks arising from policy regulation are gradually emerging out. On the other hand, the country's energy structure is subject to profound adjustment and effective demand in the market remains insufficient due to an imbalanced supply-demand structure and constant innovations in the energy production and consumption models. As regards, the Company will forge ahead against the headwind, secure a victory in the three critical missions including revitalization of the wind power business, expanding the modern services business and strengthening the international business, and work to ensure a continued growth of the operating revenue and total profits, so as to promote the quality development of the Company. It is planned that the Company will produce power generation equipment with a total capacity of 27 million KW throughout the year.

(IV) Possible Risks

1. Risk relating to market orders

With the gear of Chinese economic growth shifting to medium-to-high speed, there is less demand for electricity and additional power generating equipment. The new power generation equipment market faces sharp downturn and uncertainties increase for concluded contracts due to further control to be imposed by the National Energy Administration on the capacity of coal-fired power. All of these factors bring about great pressure and risks to orders of enterprises.

The Company will spare no effort to expand the target market. We will strive for the sustainable increase in orders by tapping into the traditional market, fully developing the renewable energy market, vigorously developing the services market and steadily developing international business, thus laying a solid foundation for leapfrog development.

2. Risk relating to regulation of coal-fired power policies

According to the national energy working conference, coal-fired power construction projects with a total capacity of approximately 150 million KW will be cancelled and postponed by the end of the "13th Five-year Plan" period, the Chinese Government suspended or postponed the construction of 79 projects involving coal-fired power generation units with a total capacity of 90.37 million KW in 2017. The Chinese government's regulatory policy on coal and electricity had an impact on the business operation of the Company. It is anticipated that the Chinese Government will suspend or postpone a number of coal-fired power projects in 2018 or in the following years, which will cast uncertainties over the business operation of the Company.

The Company has identified projects which may subject to risks by conducting an examination on a project-to-project basis after taking into consideration factors such as project progress, business operation and capital adequacy and payment of project owners. To prevent potential project risks, the Company has enhanced communication with project owners and exerted stricter control over the internal working schedule.

3. Risk relating to recovery of receivables

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

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

III. OTHER EVENTS

1. PROGRESS OF THE ACQUISITION OF SHARES BY ISSUANCE OF SHARES

The Company entered into the proposed Assets Transfer Agreement, Compensation Agreement and related Supplemental Compensation Agreement with DEC on 7 March 2017 and 31 August 2017, respectively, pursuant to which the Company has conditionally agreed to acquire the target assets, including:(i) 100% equity interest in DEC Materials;(ii) 100% equity interest in DEC Bulk Logistic;(iii) 95% equity interest in DEC Finance;(iv) 100% equity interest in DEC International Cooperation;(v) 100% equity interest in DEC Automatic Control;(vi) 41.24% equity interest in DEC Hitachi;(vii) 100% equity interest in DEC Clean Energy;(viii) 100% equity interest in DEC Smart Energy;(ix) certain equipment and intangible, including 833 equipment (including 407 mechanical equipment, and 426 electronic equipment) and 473 intangible assets (including 63 software, 14 computer software copyrights, and 396 patents). According to the filed valuation results on target assets issued by the State-owned Assets Supervision and Administration Commission of the State Council, the Company will pay the total consideration of target assets by issuing approximately 753,903,063 Consideration Shares of A Share to Dongfang Electric Corporation at an issuance price of RMB9.01 per Consideration share.

The transaction was considered and approved at the 2017 first Extraordinary General Meeting, the 2017 first A Shares Class Meeting and the 2017 first H Shares Class Meeting all held on 23 November 2017. On 1 March 2018, the Company obtained the Approval in relation to the Acquisition of Assets from Dongfang Electric Corporation by Issuance of Shares issued by the CSRC.

Please refer to (i) the announcements dated 9 March 2017, 31 August 2017, 20 October 2017 and 1 March 2018, (ii) the circular dated 7 November 2017, and (iii) poll results announcements of the 2017 first Extraordinary General Meeting, the 2017 first A Shares Class Meeting and the 2017 first H Shares Class Meeting all held on 23 November 2017 for details of the transaction.

2. PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, the Company did not purchase, sell or redeem any listed securities of the Company.

3. MAJOR ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

During the year ended 31 December 2017, neither the Company's subsidiaries nor its associates was purchased or sold.

4. GUARANTEE AND PERFORMANCE THEREOF

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

At the end of the Reporting Period, the aggregate guarantee of the Company amounted to RMB92.5 million, representing 0.42% of the net assets of the Company.

5. MATERIAL LITIGATION AND ARBITRATION

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

6. EMPLOYEES

As at 31 December 2017, the Company had 17,478 employees, who were remunerated based on their individual performance. Remuneration packages are structured with reference to their positions and the Company's results.

The Company launched the first H Share Appreciation Rights Scheme on 14 December 2012, incentive recipients included the Directors and senior management of the Company, the principal and key managerial personnel of main subsidiaries, the senior management and important managerial personnel of the subsidiaries, the key engineering and technical professionals and the key professionals with expertise. The restrictive period was from 14 December 2012 to 13 December 2014, and the lock-up period was commenced on 14 December 2014 and ended on 13 December 2017.

One third of the H share appreciation rights granted by the Company to incentive recipients took effect from 14 December 2014. None of incentive recipients exercised such rights during the Reporting Period. Hence, as of 13 December 2017, the H share appreciation rights granted by the Company to incentive recipients were lapsed.

7. CODE ON CORPORATE GOVERNANCE PRACTICES

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

8. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors and supervisors of the Company on the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made specific enquiry to all Directors and supervisors of the Company, the Company confirms that, for the year ended 31 December 2017, the Directors and supervisors of the Company had complied with the provisions regarding the securities transactions by Directors and supervisors as set out in the Model Code.

9. AUDIT COMMITTEE

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

10. RESOLUTION ON PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In March 2017, the Organization Department of CPC Central Committee and SASAC Party Committee of State Council jointly issued the "Notice of Solidly Pushing the Requirement of State-Owned Enterprises for Party Building to be Incorporated into the Articles of Association" (Zu Tong Zi [2017] No. 11), which provided that enterprises with mixed ownerships relatively controlled by state-owned capitals shall be divided into listed companies and unlisted companies to steadily promote the amendments to the Articles of Association. The Board resolved to submit the amendments to the Articles of Association for consideration and approval at the 2017 annual general meeting. The specific details of the proposed amendments to the Articles of Association are as follows:

Comparison table of amendments to the Articles of Association

Original articles	Proposed amendments
—	(A new Article 9 shall be added and the subsequent articles shall be renumbered accordingly) Article 9 **In accordance with the requirements of the Company Law and the Constitution of the Communist Party of China, an organization of the Communist Party of China shall be established. The working organs of the Party shall be established, equipped with sufficient staff to deal with Party affairs and provided with sufficient funds to operate the Party organization. The Party committee shall perform the core leadership and core political functions to provide directions, manage overall situations and ensure implementation.**

Original articles	Proposed amendments
—	(A new Article 126 shall be added and the subsequent articles shall be renumbered accordingly) Article 126 **<u>The Board shall seek advice from the Party organization before deciding on significant issues of the Company including, among others, the reform and development direction, primary objectives and targets and key work arrangements. For the appointment of senior management of the Company by the Board, the Party organization shall consider and provide advice and suggestion on the candidates proposed by the Board or the president, or recommend candidates to the Board or the president.</u>**

Proposed amendments to the Articles of Association are subject to the approval, by special resolution, at the general meeting of the Company. A circular of the Company containing, among other things, details of the proposed amendments to the Articles of association will be despatched to shareholders as and when appropriate.

11. INFORMATION DISCLOSURE

This announcement will be available on the websites of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2017, which contains all information as proposed in the Disclosure of Financial Information set out in Appendix 16 to the Listing Rules, will be dispatched to shareholders of the Company and published on the websites of The Stock Exchange of Hong Kong Limited and the Company (http://dfem.wsfg.hk) in due course.

This announcement is prepared in both Chinese and English by the Company. In case of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

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

Chengdu, Sichuan Province, PRC
29 March 2018

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

Directors:	*Zou Lei, Zhang Xiaolun, Huang Wei, Xu Peng and Zhang Jilie*
Independent Non-executive Directors:	*Chen Zhangwu, Gu Dake and Xu Haihe*