

Chairman's Statement



ZHANG Xiwu Chairman

Dear Shareholders,

Looking back at the extraordinary year of 2009, facing fluctuating economic landscape and great challenges brought about by the global financial turmoil, our employees proceeded with confidence to handle macro-economic conditions and market trends, overcame difficulties together and strived for excellence under the leadership of the board of directors of China Shenhua. The Company therefore maintained a relatively fast growth momentum in its results and kept its leading position among its peers worldwide. Over the past year, given all employees were committed to implementing our growth strategies of “pursuing scientific development, reshaping Shenhua and doubling economic aggregate output within five years” through active market expansion, balanced production, operation planning and industrial layout arrangements, cost control and efficiency enhancement, self-innovation reinforcement and active performance of social responsibilities, the Company has achieved the best record in its operational history despite negative market environment. As at 31 December 2009, the total market capitalization of China Shenhua reached US\$100.765 billion, representing an increase of 103.6% as compared to its market capitalization at the end of 2008 and ranking the first among the listed coal companies worldwide and the third among the listed integrated mining companies worldwide. On behalf of the board of directors, I am delighted to present the 2009 annual report of China Shenhua and report to all shareholders on the Company's performance for the period.

Sailing Through Adversity and Achieving Thriving Production and Operational Results

In 2009, the four major segments of China Shenhua, namely coal, railway, port and power business, have once again achieved satisfactory results both in production and operation:

- the production volume of commercial coal reached 210.3 million tonnes and the coal sales volume was 254.3 million tonnes, representing a year-on-year growth of 13.2% and 9.3% respectively.
- the turnover of self-owned railway transportation was 138.2 billion tonne km, representing a year-on-year increase of 12.1%, and the seaborne coal sales volume reached 159.2 million tonnes, representing a year-on-year increase of 14.2%.
- the gross power generation reached 105.09 billion kwh, representing a year-on-year increase of 7.5%; the total installed capacity was 23,520 MW, representing a year-on-year growth of 25.1%.

Despite the negative impacts of the global financial crisis on the coal and power industries, the Company continued its momentum and achieved growth in its 2009 results by leveraging on the joint efforts of all of its employees:

- Revenues were RMB121.312 billion, representing a year-on-year increase of RMB14.179 billion or 13.2%.
- Profit attributable to equity shareholders of the Company for the year was RMB31.706 billion, representing a year-on-year increase of RMB5.065 billion or 19.0%.
- Net cash generated from operating activities was RMB53.345 billion, representing a year-on-year increase of RMB12.727 billion or 31.3%.
- Basic earnings per share was RMB1.594, representing a year-on-year increase of RMB0.255 or 19.0%.
- The board of directors has recommended the distribution of a final dividend for the year of RMB0.53 per share (inclusive of tax). The percentage of cash dividend accounted for 33.2% of basic earnings per share.

Ongoing Business Expansion and Successful Expansion of Market

In 2009, the coal segment continued to expand its production capacity through the construction of new mines and technological upgrade of existing mines. At the same time, it increased the number of working faces in thin coal seam to enhance recovery rate of resources. Shendong Coal Group was established by the Company in 2009 through consolidation of Shendong Mines and Wanli Mines, which significantly improved the efficiency of every aspect of mine production, resource allocation, geological exploration, selection and processing, equipment maintenance and application of information technology in mines. Such move created the fundamental conditions for developing Shendong Mines into a world-leading mine region with a coal production capacity exceeding 200 million tonnes. The production volume of Zhunge'er Mines continued to increase through reinforcing successive management on stripping and mining and enhancing efficiency on large-sized facilities such as dragline excavators.

The aggregate commercial coal output of Bu'ertai mine, Jinjie mine and Ha'erwusu open-cut mine operated by Shendong Mines and Zhunge'er Mines increased by 16.6 million tonnes as compared with the same period of last year, hence being the major contributors to the increase in commercial coal production of the Company in 2009. Coal produced from Shengli Mines has penetrated into regional coal market and its annual production volume reached 10.5 million tonnes. In addition, the Company continued to enhance advancement in processing technology to improve coal quality, which increases value of its coal products.

As at 31 December 2009, in accordance with the PRC mining standard, China Shenhua had recoverable coal reserve of 11.306 billion tonnes; and the internationally recognized JORC standard, the Company had marketable coal reserve of 6.927 billion tonnes. In 2009, the fatality rate per million tonnes of raw coal production of the Company was 0.017, reaching the world's leading level.

The railway segment achieved remarkable performance through accelerating capacity expansion, strengthening dispatch control and optimizing transportation organization. As the revamp project of Shenmu North Station has been completed and trains with 10,000 tonnes loading capacity have been put into use, the transportation capacity of Shenshuo Railway was enhanced significantly. Upon the commissioning of reverse trains transportation with Shuohuang Railway, the reverse transportation volume throughout the year amounted to 1.40 million tonnes, constituting a new profit growth point in the transportation segment. For the port segment, the Company continued to improve its management and strived to maximize economic benefits.

To cope with changes in the operating environment in 2009, through reasonable adjustment of marketing strategies, the Company actively entered into long-term strategic cooperation with key customers, explored new markets such as metallurgy, and at the same time developed new types of coal products in an effort to diversify its markets. The annual coal sales volume of the Company reached 254.3 million tonnes, representing a year-on-year growth of 9.3%. Domestic seaborne coal long-term contract price was RMB441.4 per tonne, representing a year-on-year increase of 8.0%.

To cope with the gradual rebound of power demand in the PRC in 2009 after its initial substantial decline, rapid growth of installed capacity of power generation units throughout the year and keen competition with other power generation enterprises, the power segment stuck to the marketing principle of "Every kilowatt-hour counts" and has established the regional marketing and sales centers for the purpose of boosting the sales of substituted power and direct power dispatch. Through stringent costs control and refined management, the Company achieved historical high both in power generation and profits for the segment. As at 31 December 2009, the Company's total installed capacity increased by 4,723 MW to 23,520 MW, representing a year-on-year growth of 25.1%.

In addition, the Company has steadily been working on preparatory work of the exploration project in Watermark of Australia and the construction of integrated coal and power project in the South Sumatra Province in Indonesia.

In 2009, the Company pushed ahead the implementation of its "double increases and double reductions" campaign and has refined management across the Company to reduce controllable costs and monitor investment size in a reasonable manner.

Committed to Social Responsibility and Developing Low-carbon Clean Energy

In 2009, the Company took an active role in performing its social responsibility. On one hand, the Company kept up its efforts on environmental protection and energy-saving projects, ecological mine management, emission management and integrated utilization as well as R&D and promotion of energy-saving and emission reduction technologies, thereby enhancing recovery rate of coal resources and protecting water resources with the objective of facilitating harmonious development between enterprise and ecological environment. The Company commenced its "Felicity Project" and strived to make our staff as the "Corporate Staff with the Highest Level of Felicity". In establishing a sound corporate governance structure, strengthening internal control, adhering to operation in good faith and committing to public welfare, the Company achieved a win-win result with its shareholders, customers, suppliers, creditors and the community. For details, please refer to the 2009 CSR Report of the Company.

2010: Strong Confidence and Moving Forward

Looking ahead to 2010, the global economy is expected to continue its recovery and growth. With China's reviving economy and greater market confidence, the policies on boosting domestic demand and improving livelihood will continue to come into effect.

In 2010, the operation of China Shenhua will face numerous challenges, including:

- The financial crisis has a lingering impact on the global economy. More fluctuations and uncertainties are expected to arise in the recovery of economy, thereby accelerating changes in the market;
- The Company will encounter more challenges in the coal industry, mainly including continuous capacity released from mines which are newly-constructed, or have undergone reform and expansion, technological upgrade and resources consolidation; the steep rise in the net import volume of coal in China; the PRC government's implementation of the resource tax policy and the reform of the levy scheme on environmental protection will drive the Company's costs higher. Meanwhile, the power, railway and port segment of the Company will also face pressure from intensified competition.

Facing changes and challenges in operating environment, the Company remains confident that it will maintain growth momentum in results mainly because:

- The direction of China's macroeconomic recovery will remain unchanged. The State policy will change the path of economic development and accelerate structural adjustment of the economy. As demand for stable supply on high-quality coal increases, the advantages of the brand "Shenhua Coal" will become increasingly significant.
- Strong foundation of the Company and the integrated, large-scale, professional and intensive business model adopted by the Company has created its core competitiveness with low-cost operation and will continue to distinguish the Company from its competitors in the market.
- The Company has formulated its development strategy to "pursue scientific development, reshape Shenhua and double economic aggregate output within five years". These will gradually be turned into key strategic projects, which will be put into production and form foreseeable growth in results.
- Through adjustment of internal organization structure and enhancement of production and operation management, the Company will continue to expand its capacity on production, transportation and sales; meanwhile, the Company will focus on the large-scale development of its shipping capacity and extend its operations to a more diversified market with a view to enhancing its one-on-one and door-to-door customer service capabilities.

In 2010, our major operating objectives are to accelerate the implementation of mega sales strategies and expand the sales volume of commercial coal to increase market share in the coal market; meanwhile accelerate the construction of new mines and progress of technological upgrade of those mines which have been put into production, and increase additional coal capacity with an aim to achieve steady growth of coal production; optimize transportation organization, reinforce railway and port transportation capacity and accelerate the development of the shipping segment; and finally push ahead the marketing efforts to further expand the power market.

Future Development: Focusing on Strategic Transition and Promoting Company's Reform

To implement the development strategy to “pursue scientific development, reshape Shenhua and double economic aggregate output within five years”, future development of the Company will focus on strategic transition and promotion of reform. The Company will implement its strategic reform in the following aspects:

- To promote the strategic transition on model of operation. The Company will change its development strategy from reliance on self-investment to a combination of investment, merger and acquisition and etc. The Company will also transform from an enterprise specializing in production to a production-based and marketing-oriented enterprise.
- To promote the implementation of the mega sales strategy and continue to improve the Company's integrated mine, power, railway, port and shipping business model. The Company will optimize its sales management models, strengthen sales force in key areas, speed up construction of coal reserve terminal, coal ports and the fleet of vessels, reasonably position its markets, perfect sales channels and extend sales and build Shenhua mega coal sales network to enhance its control over market.
- To promote the strategy of low cost. In future, the Company will continue to promote large-scale, professional and intensive model of operation in each business area and optimize its governance as well as production and operation structures so as to enhance efficiency and lower costs.
- To promote the safe development strategy. On one hand, the Company will continue to focus on the safety and risk management of production and operation. On the other hand, the Company will effectively control major management risks such as decision-making risk, operational risk and financial risk through the establishment of a sound corporate governance system.

- To promote the development of low-carbon clean energy and technology innovation strategy. Looking ahead, the Company will gradually realize a strategic transition to an enterprise focusing on development of low-carbon clean energy with an attempt to become the world's leading promoter of low-carbon clean energy, pioneer of low-carbon clean technology, supplier of low-carbon clean energy, manufacturer of low-carbon clean products and provider of low-carbon clean services. At the same time, in order to enhance its core competitiveness and its ability to achieve sustainable development, the Company will also emphasize on its own and users' requirements and conduct specific R&D and innovation work, in particular accelerating its pace in technological innovation in production to maintain its leading position in the industry.

In the new year, the board of directors of China Shenhua and I will, with full confidence, lead all staff to strive for excellence and actively implement the strategies for the future development of the Company with a view to creating new value for shareholders.

Zhang Xiwu
Chairman



Beijing, PRC
12 March 2010