

Management's Discussion and Analysis

RESULTS OF OPERATIONS

Please note that the following discussion and analysis does not cover the relevant figures of Shandong Huaneng.

Year Ended 31st December 2000 Compared to Year Ended 31st December 1999

General

In 2000, our net operating revenues and net profits significantly increased from that of 1999. The increase was primarily due to the following two factors. First, the steady growth of national economy and upgrading of urban and rural grid stimulated power demand. The power demand significantly increased in most of the areas in the PRC, particularly in coastal areas where our power plants are located. The good and reliable condition of the power generating units in our plants and the full year commercial operation of Nantong Power Plant Phase II and Fuzhou Power Plant Phase II in 2000 led to a significant increase of 18.01% in our total output in 2000 from 1999. Second, we have also improved on cost control, especially control over fuel cost, which led to a 2.41% decline in unit cost.

Net Operating Revenues

Net operating revenues is the operating revenues less sales incentives paid to local power companies as an incentive to dispatch more output from the power plants. Net operating revenues increased 19.69% to Rmb12.5533

billion in 2000 from Rmb10.4882 billion in 1999. The increase was primarily due to the commencement of commercial operation of Fuzhou Power Plant Phase II and Nantong Power Plant Phase II in the full 2000 and the significant increase in output of Shangan Power Plant, Shanghai Power Plant and Shantou Power Plant, which reached a record high of annual output among our similar plants. In addition, the rise of tariff rate in Shanghai Power Plant and the increase of planned output at approved tariff rate in Shangan Power Plant Phase II also contributed to the increase in our net operating revenues in 2000.

Dalian Power Plant's net operating revenues increased 3.18% to Rmb1.6266 billion in 2000 from Rmb1.5765 billion in 1999. Although the average tariff rate of the whole plant declined 2.41% from Rmb318.84 per MWh due to the impact of the power sale through the bidding process, which accounted for 10% of the total output, the increase in total output of 5.41% still enabled the operating revenues to increase.

Net Operating revenues of Dalian Power Plant Phase I declined 3.10% to Rmb855.1 million in 2000. Although the total output increased 1.53%, the weighted average tariff rate of Dalian Power Plant Phase I declined 4.57% from that of 1999 due to the impact of the power sale through the bidding process of 316.1 GWh.

During the second full year of commercial operation in 2000, the two generating units of Dalian Power Plant Phase II entered into normal production period and enjoyed a



Vice Chairman Mr. Wang Xiaosong presented at a press conference.

9.90% increase in total output from 1999, which included sale through the bidding process of 295.5 GWh. The total operating revenues for Dalian Power Plant Phase II increased 11.17% from 1999 to Rmb771.5 million in 2000.

Fuzhou Power Plant's net operating revenues increased 49.58% to Rmb1.9717 billion in 2000 from Rmb1.3181 billion in 1999. The increase was primarily due to the fact that Fuzhou Power Plant Phase II had the first full year of normal commercial operation in 2000 and its total output increased 44.16% from 1999.

Fuzhou Power Plant Phase I's net operating revenues declined 3.99% to Rmb1.0040 billion in 2000 from Rmb1.0457 billion in 1999. The decline was primarily due to the downward pressure of the commencement of Phase II on the on-grid output of Phase I.

Fuzhou Power Plant Phase II started commercial operation in October 1999. It produced net operating revenues of Rmb967.7 million in 2000, on an output of 2.7931 TWh at a weighted average tariff rate of Rmb405.35 per MWh.

Shangan Power Plant's net operating revenues increased 12.13% to Rmb1.9345 billion in 2000 from Rmb1.7252 billion in 1999. The increase was primarily due to the significant rise of output of Shangan Power Plant Phase II sold at the approved tariff rate.

Shangan Power Plant Phase I's net operating revenues increased 2.42% to Rmb940.5 million in 2000. The total output increased 7.90% to 3.8840 TWh in 2000.

Shangan Power Plant Phase II's net operating revenues increased 23.18% to Rmb994.0 million in 2000 from Rmb807.0 million in 1999. The increase was primarily due to the increase of output sold at approved tariff rate to 2.3195 TWh in 2000 from 1 TWh in 1999, which resulted in the 23.89% increase of weighted average tariff rate to Rmb379.50 per MWh in 2000 from Rmb306.33 per MWh in 1999.

Nantong Power Plant's net operating revenues increased 56.69% to Rmb1.6685 billion in 2000 from Rmb1.0648 billion in 1999. The increase was primarily due to the fact that Nantong Power Plant Phase II had the first full year of normal commercial operation in 2000 and accordingly increased the total output by 57.14% from 1999 to 6.0375 TWh, of which sale through the bidding process accounted for 5.11%.

Nantong Power Plant Phase I's net operating revenues increased 8.38% to Rmb912.0 million in 2000. The increase was primarily due to the 12.44% increase of output from 1999 and the integration of tariff rates of Phase I and Phase II. The weighted average tariff rate of the whole plant

decreased 3.71% from 1999 to Rmb323.71 per MWh in 2000. Nantong Power Plant Phase I had sales through the bidding process of 168.6 GWh, resulting in reduction of operating revenues of Rmb19.78 million.

Nantong Power Plant Phase II's net operating revenues was Rmb756.5 million and total output was 2.7375 TWh in 2000, in which sales through the bidding process was 140 GWh, resulting in reduction of operating revenues of Rmb16.41 million.

Shantou Oil-fired Power Plant's net operating revenues was Rmb95.1 million in 2000, roughly holding par with Rmb94.5 million in 1999. The total output decreased 10.30% from 1999 to 166.2 GWh due to the pressure of high fuel costs resulted from the sharp rise of oil price in 2000. However, Shantou Municipal Energy Office and Pricing Bureau approved the fuel price subsidy at peak hours and accordingly the actual weighted average tariff rate reached Rmb669.77 per MWh in 2000, an increase of 12.09% from Rmb597.51 per MWh in 1999, which to some extent mitigated the negative impact of decrease in output.

Shantou Power Plant's net operating revenues increased 24.02% to Rmb1.4685 billion in 2000 from Rmb1.1841 billion in 1999. Power demand increased 20.3% in Guangdong Province in 2000 from 1999 due to its fast economic growth. Accordingly, the total output of Shantou Power Plant increased 24.07% to 3.6260 TWh in 2000 and the weighted average tariff rate was Rmb473.85 per MWh, holding par with 1999.

Shanghai Power Plant's net operating revenues increased 10.68% to Rmb2.2025 billion in 2000 from Rmb1.9899 billion in 1999. The total output increased 9.40% from 1999 to 7.110 TWh, in which sales through the bidding process were 879.7 GWh and generated Rmb242.1 million

revenue. The weighted average tariff rate increased 1.11% to Rmb362.44 per MWh in 2000 from Rmb358.46 per MWh in 1999.

Dandong Power Plant's net operating revenues increased 10.19% to Rmb784.8 million in 2000 from Rmb712.2 in 1999. The increase was primarily due to the 11.43% increase of total output from 1999 to 2.9982 TWh in 2000. Sales through the bidding process of 134.6 GWh in 2000 made the average tariff rate decrease 1.11% to Rmb306.27 per MWh in 2000 from Rmb309.70 per MWh in 1999.

Nanjing Power Plant's net operating revenues increased 2.64% from 1999 to Rmb801.1 million in 2000. The total output increased 6.00% to 2.8778 TWh, in which sales through the bidding process were 419.3 GWh, accounting for 14.57% of the total output. The weighted average tariff rate dropped 8.16% from Rmb354.61 per MWh in 1999 to Rmb325.68 per MWh in 2000.

Operating Expenses

Total operating expenses increased 15.16% to Rmb8.6464 billion in 2000 from Rmb7.5082 billion in 1999. The increase in operating expenses resulted primarily from the inclusion of operating expenses of Fuzhou Power Plant Phase II and Nantong Power Plant Phase II, which were in commercial operation in full 2000, as well as the increase of cost due to the significantly increased total output in 2000.

Fuel costs, including the associated transportation costs, increased 14.78% to Rmb3.8407 billion in 2000 from Rmb3.3462 billion in 1999. The increase in fuel costs was primarily due to 18.01% increase in total output. The weighted average unit cost of coal dropped 2.86%, from Rmb227.41 per ton in 1999 to Rmb220.91 per ton in 2000.