

# Report of the President

Dear Shareholders,

It is my pleasure to report to the shareholders the operating results and the status of the Company's operations for 2001 and its plan for 2002.

Year 2001 is a landmark year in the development process of the Company. During the Year, with the aim of optimizing the interests and benefits of the shareholders, the base of safety operation and the emphasis on economic efficiency, the Company has carried out certain measures to strengthen its management, to develop the market, to adopt cost controls and to enhance efficiency. With the solidarity among the management and staff of the Company and its subsidiaries and with their determination and hard work, we were able to overcome various negative factors coming from both the power sector and the coal market, and completed all its work objectives for the Year.



## BUSINESS REVIEW

### 1. Operating Results

For the twelve months ended 31st December, 2001, the Company and its subsidiaries recorded a net profit of Rmb3.451 billion and net operating revenue of Rmb15.791 billion, representing increases of 37.16% and 25.79% respectively over the same period of 2000. Basic earnings per share was Rmb0.61, representing an increase of Rmb0.16 over 2000.

The successful acquisition of Shandong Huaneng which was formerly listed in NYSE has enlarged the Company's operation scale, strengthened the Company's market presence and enhanced its competitiveness which significantly contributed to the substantial growth in the operating results of the Company in 2001. On the other hand, despite the unfavourable factors including the increasingly keen competition in the power market, and the continuous increase in fuel prices, the Company and its subsidiaries have still strived to explore the power market and reinforce its marketing efforts, as well as strengthen internal management and cost controls to improve efficiency. Although the coal price for the year increased 2.81%, average unit cost of output decreased 3.22% as compared to the previous year.

At the end of 2001, the net asset value per share of the Company was Rmb4.72, representing a 12.11% increase over 2000.

### 2. Power Generation

In 2001, the total power generation of the Company's and its subsidiaries' power plants, on equity basis, reached 55.86 billion kWh, 3.8% above the annual target and 26.5% more than that of 2000.

The growth of the power generation was, on the one hand, attributable to the acquisition of Shandong Huaneng which increased the generation capacity of the Company. On the other hand, the Company and its power plants continued to strengthen their operating management, strive to expand the power market and enhance sales effort, which enabled them to achieve an excess amount of generation beyond the planned generation. Accordingly, the Company completed its generation plan beyond targets despite the unfavourable conditions including the addition of newly commissioned generating units and increase in power input from other grids as well as increased generation of hydropower supply within the power grids where the Company's power plants operated.

In 2001, the average availability factor of the power plants of the Company together with its subsidiaries was 92.18% and the average capacity factor was 58.97%; the weighted average coal consumption rates for power sold and power generated were 333 gram/kWh and 317 gram/kWh respectively; and the weighted average power plant consumption rate was 4.97%. The Company's technical and economic indices remained to be in the forefront among all other power companies in the PRC.

In 2001, five power plants of the Company in Shanghai, Liaoning, and Jiangsu participated in the trial run of power sale by competitive bidding ("power pooling") in the regions where they are located. The total volume of electricity sold by power pooling was 2.795 billion kWh, representing 5.17% of the Company's total power sales of the whole year. The successful sale of such electricity volume by power pooling not only increased the total market share of the Company but also increased the profit margin of the Company.

The growth in power generation of the Company in 2001 laid the foundation for the good operating results.

### 3. Issuance and Listing of A Shares

On 15th and 16th November, 2001, the Company issued successfully a total of 350,000,000 A shares in the PRC, of which 250,000,000 public shares were issued to strategic investors and securities investment funds subscribed offline and to public investors subscribed online, both through the book building process. At the same time, the 100,000,000 state-owned legal person shares were placed to HIPDC at the same price. The issue price of A shares was fixed at Rmb7.95 per A share and the proceeds of A shares issue was Rmb2.78 billion. On 6th December, 2001, the Company's A shares listed on Shanghai Stock Exchange successfully and the trading of the shares commenced. The stock abbreviation is "Huaneng Power", with stock code



600011. The Company's target of listing in New York, Hong Kong and Shanghai has been realised.

The listing of A shares further improved the capital structure of the Company and opened up a new financing channel in the domestic capital market, thereby creating favourable conditions for the future development of the Company.

At present, the total share capital of the Company is 6,000,000,000 shares.

### 4. Other Achievements

During the Year, the Company and its subsidiaries had other achievements as follows:

- (1) Significant Results in Asset Acquisition

The successful acquisition of Shandong Huaneng caused Shandong Branch Company, Dezhou Power Plant and the Company to implement unified taxation policies, thus implementing the tax exemption policies for the import of equipment in relation to the construction work of Dezhou Power Plant Phase III. In 2001, Shandong power plants made further improvements on various

production and operation fronts on the basis of maintaining their previous excellent management standards, thereby making greater contributions to the gradual increase in the economic efficiency of the Company.

(2) Strengthening Cash Flow Management and Improving Economic Efficiency

In view of the continuous and drastic interest rate cuts of the US dollars and the capital adequacy of the Company, the Company actively commenced debt restructuring, including using loans at lower interest rates to repay those loans of higher interest rates as to foreign debts and repaying domestic debts in advance, resulting in remarkable economic efficiency. Standard & Poor's gave the Company a foreign currency corporate credit rating which is equivalent to that of the State for three consecutive years.

(3) Infrastructure

Both of the Company's projects of Dalian Power Plant Phase II and Dandong Power Plant of were awarded the 2001 Luban Award (State quality works), the highest quality award in the PRC construction industry; construction works of Dezhou Phase III progressed smoothly as scheduled.

(4) Human Resources Management

In 2001, the Company and its subsidiaries strengthened the planning and standardisation of human resources management and enhanced its work in training. It organised training courses covering new corporate accounting systems and information management, and provided structured training on business administration to the departmental managers of the Company.

(5) Sustainable Development

The project proposal of Huaneng Shanghai Combined Cycle Gas Turbine Power Plant has been submitted to the State Development Planning Commission. The development process of this project will be concurrent with the "West-to-East Gas Pipeline Project". In addition, the Company seized favourable opportunities and with its endeavour, obtained the expansion project of Jining Power Plant and its approval.

## PROSPECTS FOR 2002

Year 2002 is the first year after PRC's accession into the World Trade Organisation. The steady growth of the PRC economy will be beneficial to the development of the power industry. At the same time, with the further deepening of the power industry's reform, a good operating environment will be conducive to the Company to bring its advantages into full play vis-a-vis competition and to seize opportunities to expand its operation scale. However, at the same time, the Company is also aware of the potential challenges it may encounter. For example, certain issues arising in the course of the power industry's reforms may affect the profitability of the Company to a certain extent at certain stages. Moreover, the Company will face pressure of rising generating costs due to the rising trend of coal prices. The Company has full confidence and strength to seize opportunities and meet the new challenges. The main tasks of the Company in 2002 are as follows:

1. to ensure the safety and operating stability of the power plants and the achievement of their annual plans of power generation;
2. to ensure the first unit of Dezhou Power Plant Phase III to be put into commercial operation;
3. to strengthen fuel management and to continue to control costs in all aspects;
4. to enhance the analysis, research and forecast on the power market and the power pooling process, in order to strengthen market sales and increase competitiveness;

5. to push ahead the preparatory work of proposed projects, and to seek new opportunities for the Company's development;
  6. to further enhance corporate governance, reinforce the modernised management and set up effective staff incentive mechanisms; and
  7. to be well prepared for the ground work for power asset acquisition and seize opportunities to expand the operation scale of the Company and enhance the strength of the Company.
- On the principle of "emphasizing both development and acquisition, emphasizing both greenfield and expansion, emphasizing both coal-fuel and other feasible types of fuel and emphasizing both domestic and overseas funds", the Company will continue to enhance operating efficiency, increase shareholders' interests and maintain the long-term steady development of the Company.

