



from left to right:
Wang Xiaosong, Li Xiaopeng, Ye Daji

To all our shareholders:



As a power company, Huaneng Power is committed to supplying abundant, reliable and environmental-friendly electricity to its customers. As a publicly listed company, we are dedicated to generating long-term and steadily increasing return for our shareholders. To achieve both, we never cease to pursue sustainable, stable and healthy growth of the Company.



In 2003, the Company recorded net operating revenues of Rmb23,388 million and net profit of Rmb5,430 million, representing increases of 26.60% and 38.50% as compared to the same period of last year. Earnings per share were Rmb0.90, representing an increase of Rmb 0.25 over the same period of last year. The good performance of the Company was reflected in the share prices of the Company during the past year. The overseas share price of the Company rose 115% during the year. By the end of year 2003, the overall capitalization of the Company has exceeded US\$ 10 billion. The domestic share price has also reached a new high, up 53% over the year.

Huaneng Power is committed to supplying abundant, reliable and environmental-friendly electricity to consumers

Year 2003 was a year full of opportunities and challenges. Despite the unexpected “SARS” epidemic in the months between spring and summer, the PRC economy still maintained a continued and steadily growing trend. GDP increased by 9.1%, thereby giving an impetus to the strong growth in power demand. The nation’s power demand increased by 15.4%. In particular, the southern region continuously recorded high temperatures in summer last year, and hydropower generation was reduced drastically as a result of the low water level. Starting from November, there was a short supply of coal in the PRC power industry, which had not happened for many years. However, at the same time, power demand remained at a high level. As a power generation company, the Company’s power plants strengthened equipment maintenance and operation management in order to enhance reliability and to ensure safe and full-load production of the generating units so as to satisfy the requirements of the society, thereby warranting the safe operation of the power grids and supporting the economic development. The Company achieved power generation of 90.91 billion kWh in the whole year, an increase of 27.3% when compared to last year. The equivalent availability factor of the power plants of the Company was 92.15% and the average utilization hour was 5,933 hours.

In the fourth quarter of 2003, coal prices increased as a result of the substantial increase in demand for coal and lack of transportation capacity. In view of the adverse situation, the Company strengthened cost controls, particularly control of fuel costs, by adopting measures including coal blending burning and optimising the level of operation of the generating units in order to reduce coal consumption, and at the same time stringently controlled coal purchase costs and strived to reduce transportation costs and storage loss. As a result, the Company succeeded in maintaining the unit fuel cost for power sold to Rmb105.05, an increase of 2.28% only when compared to the previous year. The average coal consumption rates for power generated and power sold, on an equity basis, were 318.23g/kWh and 335.12g/kWh respectively.

At the same time of achieving effective control of production costs, we also strived to economise financial charges and reduce financing costs by way of scientific and rationalised arrangements for collection and payment of funds and by obtaining favourable lending terms. Owing to effective cost controls by the Company during the year, the unit cost for power sold of the Company decreased by 1.21% when compared to the previous year. As the power industry is a capital intensive industry with a long payback period, the Company has been adopting prudent financial policies. Good credit standing and sufficient cash flow have guaranteed fund requirements for the strategic developments of the Company on new construction, expansion, acquisition, and so forth.

All along, the Company adhered to the development strategy of emphasising both acquisition and development. After the Company completed the acquisition of 25% equity interest of Shenzhen Energy Group Co. Ltd. at the beginning of the year, it also realized the acquisition of the assets of Huaneng Xindian Power Plant owned by China Huaneng Group, and the equity interests of Henan Huaneng Qinbei Power Generation Limited Company and Shanxi Huaneng Yushe Power Limited Company, thereby increasing the generation capacity and generation capacity under construction of the Company on an equity basis by 770MW and 1,020MW respectively. Such acquisitions brought about further rationalization of the Company's geographical deployment of power production, and enhanced the competitiveness of the Company in the central region market, while enabling the Company to have new generation capacity added for the next two years.



As regards development and construction, generating units No.5 and No.6 of Jining Power Plant commenced commercial operation in July and August 2003 respectively, thus increasing the power generation capacity of the Company on an equity basis by 270MW. Construction of two 330MW coal-fired generating units at Huaiyin Power Plant Phase II and one 600MW coal-fired generating unit at Shantou Power Plant Phase II had commenced and they were expected to commence operation in 2005 and 2006 respectively. The feasibility study report

on the project of constructing China's first two 1,000MW ultra-supercritical coal-fired generating units at Yuhuan Power Plant Phase I has been approved by the State. The project proposals in relation to the construction of two 600MW coal-fired generating units at Taicang Power Plant Phase II, three 300MW-class Combined-Cycle-Gas-Turbine generating units of Shanghai Gas-fired Power Plant and three 300MW-class Combined-Cycle-Gas-Turbine generating units of Jinling Gas-fired Power Plant have been approved by the State. The operating scale of the Company was enlarged continuously as a result of acquisitions and development. As at the end of 2003, the generation capacity of the Company on an equity basis amounted to 15,736MW, with additional works-in-progress capacity of 3,060 MW, thus maintaining the Company's advantageous position in the PRC's power industry and ensuring good development momentum.

While creating economic value, the Company also strives to reduce pollution to the environment during its power generation. All along, the Company has been committed to protecting the environment on which we depend to live, and providing abundant, reliable and environmental-friendly electricity to the consumers. In 2003, the Company paid close attention to the environmental protection policies of the State and participated in the formulation and amendment of certain environmental protection standards. The Company implemented effective measures including stringent requirements for environmental protection management of its power plants, controlling the sulphur content of fuel coal, enhancing the efficiency of electric dust removal and operation, actively promoting the direct use of dry ash and reducing ash water discharge, thereby enabling the Company to stay at the forefront in the PRC for its environmental protection endeavours. In 2003, the total waste discharge fees paid by the Company to local governments were approximately Rmb72.68 million.

Huaneng Power is committed to generating long-term and steadily increasing return for the shareholders

The continued expansion of the operating scale and the continued and stable profit growth of the Company brought about continued and steadily increasing return for the shareholders. The Company has declared dividends to shareholders annually ever since 1998, and the dividend payout ratio has been over 50% for 4 consecutive years since 2000. In order to provide good return to our shareholders and at the same time in view of the further development of the Company, the Board of Directors of the Company has passed a resolution to propose the following plan of dividend distribution for 2003: for all shareholders, every 10 shares will receive a cash dividend of RMB 5.0 and 10 shares (five being bonus shares and the other five to be converted from reserve fund). This resolution will be submitted to the annual general meeting for approval. In the future, the Company will continue to adopt a pro-active, balanced and stable dividend distribution policy and will endeavour to achieve continued growth in shareholder return.

At the same time, the Company also attaches great importance to communication with its investors and strives to establish good communication channels and carry out open and transparent disclosure of information. In 2003, the Company conducted a total of 74 press releases, held more than a hundred “one-on-one” meetings with overseas investors through road shows and conferences with the investment sector, and organized domestic and foreign investors to visit power plants so as to directly exchange views with the management of the power plants. The transparency of the Company met the demands of the investors to understand the production, operation, financial position and strategic information of the Company in a timely manner, and attracted the following of more and more investors who have become confident about the prospects of the Company. During the Year, the Company obtained the “2003 Best IR from a Chinese Company – Large Cap” award given by *IR Magazine*, the “Best Investor Relationship for PRC Companies” award and the “Best Investor Relationship for Energy Utilities in Asia-Pacific Region” award given by *Institutional Investor*, the “Overall Best Managed Company in China” award given by *Asiamoney* and the “Best Public Utilities Company in Asia” award given by *Euromoney*.



Huaneng Power will pursue its sustainable, stable and healthy growth

Looking ahead in 2004, the government has announced that the anticipated target for PRC's GDP increase would be 7%, and the authorities concerned have estimated that the nationwide power consumption growth rate would reach approximately 11% and new installed capacity will amount to 37,000MW. However, the power supply situation in the PRC will remain to be tight. Considering the future development environment for the Company, again, there will be opportunities as well as challenges.



In respect of power generation, the fact that demand will undergo continued, substantial growth will provide the Company with a favourable condition to generate more electricity and thus more profits on the one hand, but will create pressure on safety and stability of the operation due to long, heavy loading of the generation units on the other hand. As one of the challenges we encounter this year, we will ensure a safe operation of our generating units and facilities, thus achieving a safe production.

Another challenge we face is related to coal supply. For a number of reasons, coal has been in rather short supply since the second half of last year and coal prices rose. The Company adopted a series of measures to ensure a sufficient supply of coal. The Company believes that under the government's guidance, suppliers and customers will co-operate with each other, thus ensuring a healthy coal market for the power industry.

In respect of development projects, economic growth and people's rising living standards provide more room for market development, which on the one hand gives better opportunity to the Company for rapid expansion, and on the other hand imposes heavy pressure upon project management due to the large-scale power plant construction. Ensuring the construction projects to be completed on schedule and with high quality, as well as controlling the construction costs, will be a challenge for the coming year.

We have full confidence to seize the opportunities and face the challenges to realize the goals of the Company. First, we have strong support from the parent company. HIPDC and China Huaneng Group, the direct and indirect parent companies of the Company, have power-generating assets respectively across the country and are continuously expanding. They have committed to giving the Company first right of refusal when developing and transferring power generating assets. Moreover, the parent companies will give strong support to the Company in other aspects. The Company shall take full advantage of such support to continuously enhance its strengths and profitability.

Our competitive advantages include: regulated and outstanding management and an experienced management team; economies of scale and geographical advantage on the distribution of power plants; advanced and highly efficient power generation equipment and technology; and abundant capital and strong financing capabilities.

Given the above advantages, the Company will develop far and beyond amidst competition, capture more market shares in power generation and in terms of generation capacity. The Company has full confidence to maintain its leadership position among independent power producers in China.

The Company will focus on the following objectives in 2004:

- (1) To ensure safe and operating stability of the Company's power plants, and the achievement of their annual power generation plans; and on this basis, to analyse and formulate effective market strategies with respect to power market and power pooling, and to enlarge our power market shares;

- (2) To undertake stringent control of operating costs and other costs, in particular fuel costs and construction costs;
- (3) To actively develop the proposed projects and push forward the work for the power plants under construction, with a view to expanding the Company's operating scale and enhancing its business strength; and
- (4) To actively seek new opportunities in order to assure continuous growth of the Company's profits and shareholders' interests.



The Company will continue to pursue a maximization of shareholders' interests as its operating objectives and goals. Given the steady and stable economic growth in China, the good opportunities provided by the power reform, the strong support from government of all levels and its parent company, and especially the support and trust from investors and shareholders, the Company will for sure be able to continue its healthy and steady growth under the efficient and experienced management team, bringing long-term and stable growth of return to our shareholders.

Wang Xiaosong
Vice Chairman

Li Xiaopeng
Chairman

Ye Daji
President

Beijing, the PRC
30 March 2004