

Letter to Shareholders

To all our shareholders:

As the largest listed independent power company in Asia, Huaneng Power is committed to contributing to China's economic growth and to supplying abundant, reliable and environmental-friendly electricity to its customers. We are dedicated to generating long-term and steadily increasing returns for our shareholders.

For the twelve months ended 31st December 2004, the Company recorded net operating revenues of RMB30.118 billion, representing an increase of 28.78% over 2003 and a net profit of RMB5.324 billion, representing a decrease of 1.96% over 2003. Basic earnings per share was RMB0.44.

CONSOLIDATING OUR STRENGTHS, RE-POWERING INTO THE FUTURE

In 2004, China's economy continued to grow steadily with a relatively fast pace and there was a strong demand for electricity, thereby bringing about good opportunities for the development of the Company. However, at the same time, continued coal shortage, declining coal quality and rise of coal price posed the greatest operating difficulties for the Company since its establishment ten years ago. During the year, the Company continued to strengthen its management, open up markets, control costs and enhance efficiency by focusing on economic benefits and on the basis of safe operation, with a view to optimizing shareholders' interests. The management and all staff of the Company were committed and united as ever and strived to do their utmost, thereby having effectively overcome the challenges and achieved a stable operating result during the year.

In 2004, the operating power plants of the Company and its subsidiaries achieved power generation totalling 114.28 billion kWh on a consolidated basis, representing an increase of 25.7% over the same period of the previous year. In 2004, the average availability factor of the power plants of the Company and its subsidiaries was 93.84%, with an average capacity factor of 72.92% and an average utilization hours of 6,398 hours while weighted average coal consumption rates for power sold and power generated were 337.49 gram/kWh and 319.27 gram/kWh respectively. The weighted average house consumption rate was 5.64%. The Company's technical and economic indices remained at the forefront among all other power companies in the PRC.

The general growth in power generation of the power plants owned by the Company was, on the one hand, the result of the strong increase in power demand nationwide driven by a rapid growth of the national economy. On the other hand, the significant increase in power generation was attributable to the whole-year power generation contribution from the two generating units at Jining Power Plant which commenced operation in 2003 and the power generation contribution from the new generating units at Yushe Power Plant Phase II and Qinbei Power Plant towards the end of 2004, together with the contribution of the half-year power generation from the newly acquired Yingkou Power Plant, Jingtangshan Power Plant, Yueyang Power Plant and Luohuang Power Plant, thus significantly increasing the power generation capacity of the Company. At the same time,



Li Xiaopeng, Chairman

the sound and stable operation of the equipment of the power plants owned by the Company and its subsidiaries and the scientific and rationalized scheduling of the planned maintenance of the generating units also created favorable conditions for the increased power generation of the Company.

In 2004, the Company has reinforced its safety responsibilities system since the safety of the Company's production has encountered challenges resulting from the long-time heavy loading of its production facilities. The Company has strengthened its management so as to implement such measures. The target of safety was achieved and the foundation of production safety was strengthened.

As one of the Company's development strategies, the principle of emphasizing acquisition and development has brought about prominent results in 2004. In respect of acquisition of power assets, the acquisitions of Jinggangshan Power Plant, Hanfeng Power Plant, Yingkou Power Plant, Luohuang Power Plant and Yueyang Power Plant completed during the year were the Company's largest acquisition since its incorporation. The Company's generation capacity on an equity basis increased by 3,096MW. As to the progress of new energy projects, the Company has speeded up the progress on projects-under-construction and projects under planning to ensure the respective power plants to adhere to the schedules for commercial operations in accordance with the principles of "high quality, high speed and low construction cost". Generating units 3 and 4 (2 X 300MW) of Yushe Power Plant commenced commercial operation in October and November 2004 respectively while generating units 1 and 2 (2 X 600MW) of Qinbei Power Plant also commenced commercial operation in November and December respectively. The generation capacity of the Company was then increased by 1,020MW. By the end of 2004, the generation capacity of the Company reached 19,852MW. In addition, the acquisition of 60% equity interest in Sichuan Hydro Power and 65% equity interest in Pingliang Power Plant from China Huaneng Group was completed by the end of 2004 and the power plants were merged into the Company in January 2005. Currently, the generation capacities of the Company's thermal projects under construction and hydropower projects under construction are 5,600MW and 783MW respectively. The estimated generation capacities of planned thermal power projects and planned hydropower projects are 8,960MW and 1,439MW respectively. The Company will continue to have new generating units to be put into commercial operation in each of next five coming years.

ADOPTING MULTIPLE MEASURES TO CONTAIN FUEL COSTS

During 2004, the nationwide short supply of coal, rising coal prices and declining coal quality caused great impact on the generation and operation of the Company. Although there is a relatively significant increase in power generation when compared to the same period in 2003 and we have adopted various measures to control costs, the Company still could not offset the increase in power generation costs caused by escalating coal prices. Unit fuel cost of the Company increased 32.97% when compared to the same period of the previous year.



In view of the unfavorable conditions brought by the coal market to power generation enterprises, in 2004 the Company carried out the following measures to ensure a long-term stable and effective supply of coal: relying on the temporary intervention measures as a result of the new governmental policy on coal supply and allying with other market players to stabilize the market; exploring low cost resources and transportation capacities by strengthening co-operation with large-scale coal and transportation enterprises; enhancing fuel management; and striving to enhance the fulfillment rate of major coal contracts. As a result, the Company has ensured that no power plant would have its generation interrupted because of coal shortage, and in fact strived for stable and full-load generation in order to mitigate the magnitude of increase in fuel costs. The Company has also proactively formulated a new fuel

management model to centralize coal purchase, reallocation and settlement by entering into three to five-year mid-and-long term coal supply agreements with several large-scale national and local coal enterprises, such as Shenhua Group. The main channel of coal supply was primarily established, which has laid a solid foundation for stable fuel supply. While endeavoring to control fuel costs, the Company also adopted cost control measures including management of centralized payment of funds, strengthening the internal management of the Company and strictly controlling various expenses.



EXPANDING OUR POWER PLANTS DISTRIBUTION TO LEVERAGE DIFFERENT GEOGRAPHICAL ADVANTAGES

On the basis of its development on the coastal regions, the Company has gradually expanded its business to the regions of Central and Western China, which have undergone rapid growth in power demand. Following the Company's entering into Henan Province and Shanxi

Province, China's major energy bases, in 2003, the Company expanded to the central and western regions of China, which enjoyed rapid growth in power demand, by acquiring Jingtangshan Power Plant in Jiangxi Province, Luohuang Power Plant in Chongqing Municipality, Yueyang Power Plant in Hunan Province and Pingliang Power Plant in Gansu Province. The acquisitions have improved the generation and fuel structure of the Company and provided the Company with opportunities to capture the varied benefits of increase in power demand in both developed and developing regions. In addition, since the newly acquired power plants such as Luohuang Power Plant and Hanfeng Power Plants are close to coal mines, and Pingliang Power Plant is a mine-month project, the relatively low fuel costs of such power plants have helped to reduce the Company's fuel costs.

EXPANDING INTO HYDROPOWER, OPTIMIZING OUR GENERATION STRUCTURE

"Emphasizing both coal fuel and other feasible types of fuel" is one of the long term development strategies of the Company. During the year, on the basis of operating coal-fired power plants, the Company proactively participated in the development of other viable energy projects. In addition to speeding up the progress of gas projects, the Company acquired 60% equity interest in Sichuan Hydro Power. This was a big step forward of the Company in hydropower development since the Company's investment in China Yangtze Power Co., Ltd. The acquisition expanded the Company's service area and improved its generation structure. The fuel sources of the Company are becoming much diversified and balanced, thus providing favorable conditions for stabilizing the Company's generation.

PROSPECTS FOR 2005

Year 2005 is a year full of challenges and opportunities. The Company has been provided with more market space for its steady growth in power generation as a result of continued growth in power demand due to the continued rapid development of the national economy. The generating units acquired and the new generating units which were put into commercial operation last year will make significant contribution to the power generation and profits of the Company. The implementation of the State's Coal-Electricity Price Linkage Mechanism will be conducive to raising the Company's tariffs. Macro-economic control and clearance of non-approved construction projects will enhance a rational development of the power industry and will provide the Company with an opportunity for orderly development. The deepening reforms of the power industry will be instrumental for establishing an open, fair and equitable power market which may also bring about development opportunities for the Company.

At the same time, the Company also faces a number of challenges. The major challenge facing the Company is cost control, particularly regarding unit fuel costs. In 2005, coal will continue to be in short supply. One of our major tasks is to ensure a long-term, stable and effective supply of coal and to control unit fuel costs.

In addition, other challenges are how to ensure high quality, speedy completion and low costs during the course of power plant construction, and how to further enhance the management level of the Company and to maintain the competitiveness of the Company.



In respect of power generation, the continued growth in power demand has caused long-time heavy loading to the generating units. It is also a challenge for us to ensure a sound operation of our generating units and facilities, or to achieve safe, steady and full-load power generation so as to assure safe power supply.

As China's power market continues to evolve, it is only natural that the Company will encounter competition and face challenges. We are confident that we can seize the opportunities and face the challenges. Our advantages include: advanced and highly efficient power generation equipment and technology; a regulated corporate governance structure with an experienced management team and outstanding staff; abundant capital and solid reputation; economies of scale and geographical advantages on the distribution of our power plants; and strong support

from our parent company. Given these advantages, the Company will further develop amid competition, capture a greater market share and seize more opportunities in asset acquisition as a result of the power industry's restructuring and from its parent company. The Company has full confidence to maintain its leadership position among independent power producers in China.



The Company will focus on the following work objectives in 2005:

- (1) To enhance production safety and to ensure stable and safe power generation;
- (2) To strengthen coal purchase management and ensure a safe, stable and effective supply of coal;
- (3) To strengthen marketing and cost controls so as to increase income and decrease expenses, thus enhancing economic returns;
- (4) To strengthen management of projects under construction so as to achieve high quality, speedy completion, low costs and timely commencement of operation;
- (5) To enhance strategic planning and to ensure a long-term, stable and healthy development of the Company.

The Company will continue to pursue a maximization of shareholders' interests as its operating objective and goal. Given the continued economic growth in China, good opportunities provided by the power system reforms and strong support from the government at all levels and from the parent company, and especially the support and trust from investors and shareholders, the Company will definitely be able to continue its healthy and steady growth, bringing long-term, stable and increasing returns to its shareholders.