



Maintaining Our Leadership Position  
**through Management Excellence**

# Letter to Shareholders



To: All Shareholders,

## TACKLING CHALLENGES WITH POWER.

As the largest listed power company in the PRC, Huaneng Power is devoted to playing an active role in ensuring continuous power supply for the development of the economy of the PRC, providing clean and high efficiency energy for its customers, and creating long-term, stable and growing returns for its shareholders.

For the twelve months ended 31st December 2005, the Company recorded operating revenues of Rmb 40.19 billion, representing an increase of 33.30% compared to the previous year, and profit attributable to the equity holders of the Company of Rmb 4.872 billion, representing a decrease of 8.49% over 2004. Earnings per share amounted to Rmb 0.40. In view of the fact that the Company encountered great challenges on its heavy operating tasks from increasing coal prices and keen market competition, the Board is satisfied with the Company's performance last year. The Board of the Company proposed to declare a cash dividend of Rmb 0.25 for each ordinary share of the Company held by shareholders.

In 2005, the Company seized the opportunities arising from the strong power demand as a result of growth in the national economy and the rise of people's living standard to achieve a safe and stable increase in power generation. By ensuring a safe supply of power to meet demand, the Company has contributed to the national economic development. Although the continuing increase in coal prices in 2005 has had a negative impact on the operating results, the significant increase in power generation and the increase in the average tariff rate over

the previous year have resulted in a significant increase in operating revenue. With various measures to control operating costs, the Company was able to effectively contain the rate of decline in net profit and achieved relatively good operating results.

## Maintaining Our Leadership Position through Management Excellence

As a company listed concurrently in New York, Hong Kong and Shanghai, the Company has always been stressing the importance of corporate governance, establishing a sound internal control system, reinforcing internal management and effectively improving the precaution mechanisms against risks. In 2005, aiming to act in compliance with the relevant laws and regulations in the jurisdictions where the shares of the Company are listed, the Company further established and improved an effective internal control system by promulgating a "Handbook on Internal Control", making encouraging progress in corporate governance, financial reporting and compliance of disclosure, thereby advancing a crucial step on the road towards improving its internal control system.

The Company continued to make technological advancements in operational management. The Company was the first amongst power producers in the PRC to establish a remote real-time monitoring system on its production facilities, enabling the Company to carry out real-time comparative analysis on operation data against design specifications of all its coal-fired power generating units with capacity over 200,000 kW and to make instant adjustments optimizing the operation of its power plants.

## Letter to Shareholders

In the development of hydropower in Sichuan, the Company was the first of its kind to realize “centralized operation, unmanned monitoring, labour-effective guarding and remote operational control”.

The Company is actively developing the technology for clean energy, implementing power generating units with high capacity and parameters which are powered by clean coal so as to optimize the coal-fired power generation. Huaneng Qinbei Power Plant was the first power plant in China that has established and operated two sets of locally-manufactured, supercritical generating units with generation capacity of 600MW. Huaneng Yuhuan Power Plant will initially establish two sets of locally-manufactured, ultra-supercritical generating units with generation capacity of 1,000MW.

Likewise, the Company has thoroughly implemented the accountability system for safety production through enhancing safety training and professional management as means of strengthening the management of fundamentals. On the other hand, the quality of repair and maintenance on power generating units has been further enhanced through optimizing repair and maintenance management. These measures have helped to maintain stability in safety production of the Company. During the year, there has been no occurrence of matters of adverse effect or any mechanical failure of a material nature, nor has there been any incident of cessation in operation due to lack of coal or matters that might affect the reliability and safety operation of the power grid. In 2005, the operation power plants of the Company and its subsidiaries completed a total generation power of 150.505 billion kWh on a consolidated basis, representing an increase of 31.70% over the previous year.

In 2005, the technical and economic indices of the Company and its subsidiaries remained at the forefront among all other power companies in the PRC. The average

availability factor of the power plants of the Company and its subsidiaries was 92.93%, with an average capacity factor of 70.68%; while weighted average coal consumption rates for power sold and power generated were 337.1 gram/kWh and 317.8 gram/kWh respectively. The weighted average house consumption rate was 5.4%.

### **Strengthening Our Competitive Advantages through Technological Innovation**

In 2005, the Company had thoroughly implemented the fundamental development strategy of “fast pace, high quality and low cost” by reinforcing safety management in construction works on the one hand and actively improving the management system on infrastructure on the other hand. During the year, the Company made encouraging results in monitoring the quality, speed and costs of construction, of which the construction completion schedules on one generating unit at Huaiyin Power Plant Phase II and another generating unit at Shantou Power Plant Phase II had set new records for the Company.

The Company achieved a phased progress in optimizing design works. In 2005, design proposals on two air-cooling, supercritical generating units with generation capacity of 600MW at Shang’an Power Plant Phase III were optimized, resulting in a significant reduction on construction cost than that of the design specifications.

In addition, the Company achieved innovative breakthroughs in technological advancement. The Yuhuan construction project resolved the difficulties in the absence of technical standards in the PRC for welding core steam-pipes of the ultra-supercritical generating units. The application of plasma-lighting technology in the construction projects of Shantou Phase II and Taicang Phase II achieved zero fuel consumption from initial pipe



inception to the completion of 168-hour trial run, not only saving fuel during the trial-run period but also laying the foundation for greatly reducing generation costs after full operation.

During the process of development and construction, the Company has reinforced quality management and enhanced the level of operational commencement in all respects, creating the conditions for a quick achievement of reliable and satisfactory production capacity once a generating unit is fully operational.

#### **Enhancing Market Sales to Achieve Operating Cost Efficiency**

There has been a strong demand for electricity nationwide in 2005, whilst the capacity of newly installed generating units has also reached a record high. The substantial increase in coal prices has placed a tremendous pressure on the Company's operation. Under such conditions, the Company has strengthened sales and marketing work and adopted various measures to realize the best economic benefits: (i) the Company capitalized on market opportunities and scientifically planned its operations, which led to a well-exceeded completion on goals in the annual plan, achieving an average utilization hour of 372 hours more than the national average; (ii) the Company lobbied for the implementation of the coal-electricity price-linkage mechanism and the abolition of (different) prices charged on excess power generation for most of its power plants, thus alleviating the pressure brought about by the increase in coal price; and (iii) the Company actively participated in the establishment of regional power markets, formulating scientific pricing strategies in response to market risks. Efforts made on tariff pooling for three power plants of the Company located in Liaoning Province led to the achievement of a 12.2% increase in

the average closing price over the same period of the previous year.

#### **Controlling Fuel Costs with Flexible Coal Purchase Strategies**

In 2005, although there were improvements in coal supply, coal prices remained at a high level. Targeting to ensure fuel supply and to curb the rise in fuel costs, the Company put emphasis on carrying out the following major work:

For coal purchase, the Company has implemented centralization in purchase, allocation and settlement of coal. It strived to raise the fulfillment rate on major contracts; committed mid-to-long-term coal contracts; strengthened market analysis and procurement price guidance; reinforced the planning on management of coal purchase overseas; and optimized the structure of coal sources, thereby reversing the trend of continuous price increase and quality decline.

For coal transportation, the Company has strengthened the communication with transportation enterprises in order to ensure the capacity of transportation, thereby reversing the year-long shortage of coal supply and persistently low inventory.

For quality control on coal, the Company has carried out stringent examination on coal quality, capitalizing on the opportunities arising from a high inventory level of coal in the second half of the year. The Company raised coal quality through adoption of various measures. Through the efforts made in the above areas, the Company made an achievement at limiting the increase in the unit fuel cost of not exceeding the annual target limit of 12%.

### **Expanding Our Financing Channels to Support Long-term Developments**

The Company actively explored channels for funding to lower financing costs. During 2005, the Company issued the "corporate short-term debentures" in an aggregate amount of Rmb 5 billion in the bond market for banks, of which the maturity rate was 1.63 percentage point lower than the best lending rate offered by banks during the same period. The successful issuance of short-term debentures expanded the channels for the Company to raise short-term working capital, providing an ample and low-cost capital support to the Company for its reliable and safe production and expansion of operating scale.

### **Building Our People Resources as an Impetus for Sustainable Development**

The Company put its first priority in securing human resources, further optimizing the structure of manpower of the Company. The Company strengthened the establishment of its three core teams of senior management, senior engineering professionals and senior technicians, building a first-class workforce of the country which fulfills the needs of the Company for future development.

At the same time, the Company is putting efforts on improving and regulating the Company's policies on salaries and benefits, thus formulating a comprehensive and multi-leveled rewarding mechanism and creating a stable and harmonious environment for talents to growth. For the purpose of providing the talents to achieve the strategic objectives of the Company, the Company takes reforms and innovation as the impetus, continuously upgrading the level of human resources management and enhancing the quality of the whole workforce.

### **PROSPECTS FOR 2006**

2006 is the first year of the Eleventh Five-year Plan. Continued growth in the national economy and the on-going improvement of the people's living standard will continue to stimulate rapid growth in power demand, thereby providing opportunities for the Company to grow its power generation. However, as the supply and demand of power will become more balanced, market competition will be further intensified, thus creating new challenges for the Company. The accelerated formation of regional power markets adopting the tariff pooling system will offer opportunities for the Company to utilize the strength of its facilities to compete, yet another challenge arises as to how to maintain and enhance the competitiveness of the Company. The supply and demand of coal, in a trend of reaching equilibrium this year, will offer a favourable opportunity for the Company to ensure a safe and stable supply of coal, but an effective control on the surge of unit fuel cost will remain a challenge for the Company.

The Company's main work objectives for year 2006 are as follows:-

1. To strengthen production safety management and to ensure safe, stable and increasing power generation;
2. To strengthen sales and marketing work, optimize the structure of power generation and actively participate in competitive pooling in the regional markets in order to maximize the Company's overall profits;
3. To strengthen coal purchase management to ensure safe, stable and effective supply of coal;



4. To strengthen the management of projects under construction to ensure the projects will be completed in high quality, fast pace and low cost and in accordance with schedules;
5. To enhance strategic planning to ensure a long-term, stable and healthy development of the Company;
6. To strengthen operation management and risk management, as well as to increase the capital utilization rate and exercise stringent cost controls;
7. To encourage management innovation and to effectively carry out internal controls.

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