



Construction and Expansion

Continuously Enhancing Generation Capacity

Letter to Shareholders



To: All Shareholders,

TURNING CHALLENGES INTO POWER

As the largest listed power company in the PRC, Huaneng Power is devoted to play 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 2006, the Company recorded operating revenues of RMB44.301 billion, representing an increase of 10.23% compared to the previous year, and profit attributable to equity holders of the Company of RMB6.071 billion, representing an increase of 24.62% over 2005. Earnings per share amounted to RMB0.50. The Company proposed to declare a cash dividend of RMB0.28 for each ordinary share of the Company held by the shareholders.

In 2006, the national economy of the PRC developed rapidly. The PRC power industry was faced with good opportunities and attained significant development. The demand and supply for power was generally balanced. It was obvious that the pressure from the imbalance of supply and demand was alleviated. As an independent operating power company, the Company, on the one hand, has encountered the impact of a gradual decrease in generating units' utilization hours as well as increasing

keen competition in the power market, while on the other hand, the coal price continuously remaining at a high level has brought about challenges to the Company in its cost control. The management and all staff of the Company strived to work hard, together aggressively and, by virtue of their capabilities, overcame the challenges. The Company has met the targets in various areas, such as production safety, operating management, project construction and environment protection, etc., and achieved a promising growth in its operating results.

CONSTRUCTION AND EXPANSION – CONTINUOUSLY ENHANCING GENERATION CAPACITY

In view of the adverse situation given decreasing utilization hours of generating units in 2006, the Company actively pushed forward new construction projects with the aim to ensure the projects to be completed with “high quality, fast pace and low cost”. These projects would strengthen the Company's ability to capture more market share. During the year, 18 generating units (either coal-fired or hydropower) with a total generation capacity of 7,150 MW were put into commercial operation, setting a record in generation capacity expansion. As at the end of 2006, the Company's total generation capacity increased to 27,977 MW, representing a 26% increase compared to 2005. The commercial operation of such generating units

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enhanced the generation capacity of the Company and laid a foundation for expanding the Company's operating scale, consolidating and increasing its market shares, and raising operating income.

The Company enhanced quality control during the process of development and construction of new projects. Therefore, the level of operation stability and the ability of continuing operation were enhanced once such generating units commenced operation, thus contributing to the growth of total power generation in the year. At the same time, through optimizing construction design, stringent approximation management and organization management of construction, construction costs of new projects were under effective control. The construction of Qinbei Phase I was awarded "2006 Premium Quality Power Construction in China" and the "Lu Ban Award". The generating unit No.1 of Huaneng Yuhuan Power Plant was the first single 1,000 MW ultra-supercritical coal-fired generating unit operated in China while Yuhuan Power Plant became the first 1,000 MW-level ultra-supercritical coal-fired power plant to come into commercial operation in China.

In 2006, the operating power plants of the Company and its subsidiaries achieved power generation totaling 159.897 billion kWh on a consolidated basis, representing an increase of 6.24% over the same period of the previous year. The utilization hours of the Company's coal-fired power plants (not including Shanghai Combined Cycle Power Plant) reached 6,045 hours in the year. Although this represents a decrease of 203 hours compared to 2005, it is still 412 hours above the average of the coal-fired generating units in the country.

COAL PURCHASE – PROACTIVELY ENHANCING THE ABILITY IN COST CONTROL

In 2006, coal prices continued to hover at a high level. In light of the challenges brought by high coal prices, the Company proactively adopted various measures to control fuel costs, and had achieved significant results in various areas including guaranteeing capacity of transportation, maintaining a rational level of inventory, controlling coal prices and improving coal quality. Therefore, the increase in the annual unit fuel cost was controlled at 0.75%.

In guaranteeing capacity of transportation, the Company proactively responded to market changes, adjusted purchase strategies in a timely manner, and emphasized resolving differences in transportation, thereby guaranteeing a stable and efficient supply of coal power and a rational and safe level of inventory at various plants. For coal purchase, the Company capitalized on the environment and seized available opportunities, optimized the structure for coal delivery and coal storage, and strengthened control over spot prices for coal purchased from the market, thereby maximizing the Company's control over the increase in unit purchase price of standard coal. For quality control on coal, the Company substantially strengthened the supervision of coal quality and strived to improve the thermal value of the purchase, thereby guaranteeing the basic stability in the quality of incoming coal. The overall thermal value of incoming coal input for the year increased compared to the previous year.

DEVELOPMENT AND INNOVATION — MAINTAINING LEADERSHIP IN TECHNOLOGICAL EXCELLENCE

In 2006, the Company faced challenges from increasingly intensified competition in the power market. The Company proactively enhanced coal-fired generation, and achieved breakthroughs in advancing new technological applications, hence providing the Company with a stronger competitive edge.

Through scientific, standardized and stringent management, the Company has ensured that the various technical and economic indices of the Company's coal-fired generating units remained at satisfactory levels. In 2006, the average availability factor of the power plants of the Company was 93.61%, with an average capacity factor of 66.88%. The weighted average coal consumption rate for power sold was 335.6 gram/kWh. The average weighted coal consumption rate for power generated was 316.39 gram/kWh, while the weighted average house consumption rate was 5.69%.

In 2006, two 1,000 MW ultra-supercritical coal-fired generating units at Yuhuan Power Plant of the Company were constructed and commenced production. Yuhuan Power Plant became the first 1,000 MW-level ultra-supercritical coal-fired power plant to commence commercial operation in the PRC. It symbolizes the Company's mastery of the currently advanced coal-fired power technology in the world. This has a significance on the improvement of efficiency of coal-fired generating units, the reduction in pollutant emissions and the realization of adjustment on coal-fired generation structure among power enterprises in China.

ENVIRONMENTAL ENDEAVORS — UTILIZING RESOURCES EFFECTIVELY

As a public company, in addition to self-development, the Company also puts great emphasis on taking up social responsibilities. It strives to provide customers with clean and efficient power.

Since its incorporation, the Company has put a high regard on energy-saving and environmental protection work and persisted in maintaining a leading position in technological excellence and consistent innovation. The Company gives priority to developing large-capacity, high parameter generating units with high efficiency and low consumption, continuously expanding renovation for facilities and strengthening production operation and cost management. The Company explores proactively the areas of resources-saving, efficiency improvement and environmental protection in its power production, and has made itself a model for peers.

The Company was the first to build a power plant with large fluedized desulfurization boiler; the first to import a 600 MW supercritical coal-fired generating unit; the first to construct and operate a domestically-produced 600 MW supercritical coal-fired generating unit and the first to construct a 1,000 MW ultra supercritical coal-fired generating plant, which is currently the largest single coal-fired generating unit with the highest operational parameter in China.

During the "Eleventh Five-Year Plan" period, the Company will complete the installation of desulfurization facilities for its 47 generating units with a total generating capacity of 15,884 MW in accordance with the Responsibility Letter for the Target of Reducing Sulfur

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Dioxide which was entered into between the Company and the State to comply with the relevant environmental evaluation requirements. The Company's generating units equipped with desulfurization facilities are supposed to be increasing to a level accounting for 77% of the Company's total operating generation capacity. The Company will also increase the number of generating units with desulfurization facilities to reach a level accounting for 85% of the Company's total operating generation capacity. It is the Company's plan that all of its operating coal-fired generating units will be equipped with desulfurization facilities by 2015.

INTERNAL CONTROL – ESTABLISHING A SOUND MANAGEMENT SYSTEM

As China's largest listed power company, the Company possesses a professional management team with abundant management experience. The Company puts high regard to corporate governance all along and abides by the principles of "managing the Company through a system; communicating the thinking of the management through a system; regulating and avoiding various risks through a system; and guaranteeing the safe, stable and healthy development of the Company through a system". The Company continuously builds an efficient internal control system and strengthens its internal management, thereby enhancing the risk-averse ability of the Company.

In 2006, Section 404 of Sarbanes-Oxley Act came into effect for foreign companies listed in the United States. With the combined efforts of all staff members, the Company has achieved significant results in its internal control over financial reporting work. The Company has successfully passed the audit conducted by external auditors. The external auditors, PricewaterhouseCoopers, issued an unqualified audit

report for the internal control work of the Company in 2006. The Company is among the first batch of PRC enterprises listed in the US to fulfill the internal control over financial reporting requirements of Section 404 of Sarbanes-Oxley Act. The general internal management quality of the Company has been further enhanced. Each and every management system has been strictly enforced, hence improving the Company's overall capabilities on decision-making, implementation and control, effectively assuring the healthy development of the Company.

CAPITAL ASSURANCE – CONTINUOUSLY ENHANCING FINANCIAL STRENGTHS

In recent years, the Company has been viewing "increasing revenue and reducing costs" as one of its major tasks. To guarantee the availability of capital required for its development, the Company reduces finance costs and saves finance expenses by issuing short-term debentures and obtaining substantial banking credit facilities. In 2006, the Company obtained low-cost capital of RMB6.7 billion and saved finance expenses of approximately RMB0.1 billion.

In addition, through measures such as enhancing the management of capital budgeting, strengthening the preparation of capital budget, reinforcing centralized capital payment, improving the efficiency of capital usage and assuring capital security, the Company is able to maintain a reasonable gearing ratio and a relatively high cash flow. The Company's cash flow from operating activities amounted to RMB11.495 billion, and its gearing ratio level was 55.45%.

On the basis of fulfilling the Company's capital need for daily production and operation, greenfield developments and acquisitions, the Company will continuously strive to reduce capital costs, to control financial risks and to establish the best capital structure. Effective financial

management endeavors will provide the Company with sufficient and low-cost financing for the Company's safe and stable production and for the expansion of its operating scale, laying a solid foundation for the sustainable long-term development of the Company in the future.

PROSPECTS FOR 2007

Year 2007 is a year full of both opportunities and challenges.

As regards the power market, a rapid growth in the national economy and continued improvement in the living standard will drive a continued rapid growth in power demand, thereby providing the Company with opportunities for project development and expansion of its operating scale. However, due to an increasing number of power projects put into operation during the past few years leading to intensified market competition, the utilization hours of the generating units are expected to further decline.

As the State keeps on implementing the policies of "replacing small coal-fired units with large coal-fired units" and "energy saving and emission reduction", the Company will benefit therefrom given its advantages in "large-capacity generating units, high efficiency and extensive service area", thereby enhancing competitiveness of the Company. However, how to seize the opportunity and leverage the relevant policies, whereby turning the competitive advantages into development speed and actual operating results, will be a challenge for the management of the Company.

For the coal market, the general balance in the demand and supply of coal and relieved tension in the capacity of coal transportation will provide favorable conditions for the supply of coal to the Company. However, the prices in the major coal supply agreements will see a significant rise, and the spot-market coal price still hovers at a high level, thereby imposing on the Company a

challenge for controlling fuel costs. The Company will make its best efforts to control the fuel cost and strive to keep the rise of the unit fuel cost at around 5% in 2007.

In sum, the Company is confident in seizing the opportunities, dealing with the challenges and creating favourable operating results to reward its shareholders.

Ensuring safe, stable and high-volume power generation is a priority of the Company in 2007, and this is key to completing various operating objectives of the Company. Therefore, in the coming year, the Company must step up its efforts in developing the power market, strengthen market analyses and forecasts, seize opportunities and increase power generation, while strengthening the management of coal purchase to ensure a safe, stable and efficient supply of fuel. On this basis, other objectives of the Company for 2007 include the following: fully advance energy-saving and environmental protection work, and step up energy-saving technological improvements so as to continue reducing various energy consumption of generating units; strengthen the management of projects under construction so as to ensure the projects will be completed on time and with high quality, fast pace, and low cost; search for suitable opportunities for acquisition of quality assets, in order to ensure a long-term, stable and healthy development of the Company; and encourage management innovation and establish a long-term effective internal control system.

The Company will continue to pursue a maximization of shareholders' interests as its operating objective and goal. Given the continued economic growth in China, strong support from the authorities at all levels and from 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.