Coal Purchase

Proactively Enhancing the Ability in Cost Control

Management's Discussion and Analysis

(Prepared under International Financial Reporting Standards ("IFRS"), unless otherwise specified)

SUMMARY

The principal activities of the Company are investment, construction, operation and management of power plants. The Company provides stable and reliable electricity supply to customers through the grid companies where the operating plants are located. The Company insists on scientific development, increasing economic efficiency, improving returns for shareholders, conserving resources and protecting the environment. The Company also attaches importance to social responsibilities, and makes active efforts in building up a harmonious society.

Currently, Huaneng Power International, Inc. is China's largest listed power producer. The Company's electricity generation business is widely located, covering the Northeast China Grid, the North China Grid, the Northwest China Grid, the East China Grid, the Central China Grid and the South China Grid. Since incorporation, the operating scale of the Company continued to expand. Its operating revenue continued to increase, its competitiveness and its ability to generate profits and manage resources effectively continued to improve, and its environmental protection standards continued to be maintained at an advanced level when compared with its competitors. It is actively pursuing fast and better development.

Looking back on 2006, China's national economy continued to develop at a very fast pace. China's electricity industry thus had very good development opportunities and gained significant development. The demand and supply of electricity has been generally brought into balance with remarkable ease of supply shortage. Over the year, the Company oversaw the overall operations of the Company with a scientific development view. The Company actively pioneered in the business, strived hard, seized every opportunity that it came across and overcame various difficulties. The Company reached its targets in various areas, such as safe production, operation management, construction, facilities renovation and environmental protection. The Company achieved its best performance on project developments since its establishment and many technologically advanced generating units began their commercial operations as scheduled, hence increasing its generation capacity. Among those projects put into commercial operations during 2006, Yuhuan Power Plant was China's first 1,000 MW ultra-supercritical coal-fired generating unit which also featured efficient resources utilization and improved environmental performance.

I. Operating results

1. *In 2006, the Company has achieved good operating results.*

(1) With the objective of safe production achieved, power generation ability was safeguarded and enhanced, thus bringing good operating results.

In 2006, the national economy developed at a rapid pace and there was strong demand for electricity, hence providing the external conditions for the Company to generate more electricity and increase its revenue. Under the context of a rapidly developing national economy, demand for coal was very strong. However, relatively slow improvement in coal transportation against the increasing coal demand resulted in high coal price levels, and this has caused considerable difficulties for the Company to organize coal supply, control fuel cost and achieve its profit target.

For the year ended 31st December 2006, total power generated by our operating power plants was 159.897 billion kWh, representing an increase of 6.24% over the previous year.

(2) Construction projects achieved the best performance since the Company's formation. Completion of projects and commencement of commercial operation created a solid foundation for the Company to expand its scale of operation, consolidate and increase its market share, and increase its revenue.

(3) Utilization of the Company's resources and environmental protection standards remained at the forefront of the industry.

The Company has always been committed to social responsibility and harmonious development. In 2006, the average coal consumption for power generation was 316.39 g/kWh, while weighted average plant consumption rate of power plants was 5.69%. Both indices stayed at an advanced level when compared to the rest of the power generation industry, which represented the improvement in efficiency of utilization and in saving of resources. The Company always emphasizes environmental protection and has effectively reduced the emission levels of sulphur dioxide, nitrogen oxides, dust and other pollutants by using advanced technology and facilities, such as installing desulphurization facilities and other facilities.

2. Comparative analysis of operation results

2.1 Operating revenue and sales tax

Operating revenue represents amounts receivable or received from electricity sold net of amounts received in advance. For the year ended 31st December 2006, the consolidated operating revenue of the Company and its subsidiaries amounted to RMB44.301 billion, representing an increase of 10.23% over RMB40.190 billion in 2005. The increase in operating revenue is mainly due to the commencements of operations of new power plants, which increased the operating scale of the Company. The newly operated power plants (including Shantou Phase II which went into operation in the second half of 2005 and those put into operations in 2006, and thus reference applies hereafter) contributed RMB4.527 billion to the increase in revenue.

Power Plant	2005	Average tariff rate (VAT inclusive) (RMB/MWh) 2006	Change
Dalian	317.58	**315.95**	-0.51%
Fuzhou	367.06	**342.46**	-6.70%
Nantong	343.00	**344.92**	0.56%
Shang'an	319.91	**340.22**	6.35%
Shantou Oil-fired	610.73	**—**	N/A
Shantou Coal-fired	459.12	**467.37**	1.80%
Dandong	301.67	**322.76**	6.99%
Shidongkou II	357.60	**357.08**	-0.15%
Nanjing	340.65	**345.56**	1.44%
Dezhou	349.56	**360.68**	3.18%
Weihai	398.93	**402.99**	1.02%
Jining	323.41	**342.42**	5.88%
Shidongkou I	320.30	**358.85**	12.04%
Taicang	360.00	**361.64**	0.46%
Changxing	392.83	**408.90**	4.09%
Huaiyin Phase I	346.43	**366.44**	5.78%
Huaiyin Phase II	373.77	**362.26**	-3.08%
Xindian	337.25	**350.54**	3.94%
Yushe	273.58	**281.47**	2.88%
Yingkou	360.09	**334.47**	-7.11%
Jinggangshan	353.49	**369.87**	4.63%
Luohuang	300.90	**315.46**	4.84%
Yueyang	341.34	**361.68**	5.96%
Qinbei	299.77	**311.20**	3.81%
Pingliang	211.43	**216.27**	2.29%
Sichuan Hydropower	262.52	**266.32**	1.45%
Yuhuan	—	**360.95**	N/A
Taicang II	—	**371.50**	N/A
Xindian II	—	**351.90**	N/A
Consolidated	331.41	**343.59**	3.68%

The average tariff rate of the Company and its subsidiaries increased by approximately 3.68% from RMB331.41 per MWh in 2005 to RMB343.59 per MWh. The major reason for such increase was the implementation of the "Coal-electricity Price Linkage Mechanism", and the tariff of each coal-fired power plant was adjusted accordingly.

Sales tax mainly consists of additional levies on value-added tax. According to relevant administrative regulations, such additional taxes include the City Construction Tax and Education Tax. The additional taxes are based on the value-added tax that the Company and its subsidiaries paid, a percentage of which will be taken as the additional taxes according to regulations. Such taxes are currently not applicable to direct foreign investments that have been approved by the government, hence certain power plants of the Company do not have to pay such taxes. In 2006, the sales tax increased 30.47% to RMB148 million from RMB113 million in 2005, mainly due to the increased number of power plants that needed to pay such taxes due to the newly operated power plants.

2.2 Operating expenses

The total operating expenses of the Company and its subsidiaries increased by 7.64% from RMB33.068 billion in 2005 to RMB35.595 billion in 2006. The increase was attributable to the expansion of the scale of operations and the increase in fuel cost. The newly operated power plants accounted for RMB3.296 billion of the increase in total operating expenses.

2.2.1 Fuel

Fuel cost represented the major operating expenses of the Company and its subsidiaries, which has increased by 6.63% to RMB22.608 billion in 2006 from RMB21.203 billion in 2005. The increase in fuel cost was due to expansion of the scale of operation and increase in fuel price. In 2006, RMB1.235 billion of the increase in fuel cost was due to the increase in the quantities of electricity generated, while the increase in fuel price accounted for RMB0.17 billion of the increase.

As the average price of natural coal increased by 1.69% from RMB338.03 per ton in 2005 to RMB343.73 in 2006, the unit fuel cost per quantity sold (per Mwh) hence increased by 0.75% to RMB157.31.

2.2.2 Maintenance

The maintenance expenses of the Company and its subsidiaries amounted to RMB1,307 million in 2006, representing an increase of 12.14% from RMB1,165 million in 2005. The increase in the maintenance expenses was mainly due to the expansion of scale of operation of the Company.

2.2.3 Depreciation

Depreciation expenses of the Company and its subsidiaries have increased by 8.94% from RMB6.168 billion in 2005 to RMB6.719 billion in 2006. The newly operated power plants accounted for RMB566 million of the increase. Depreciation of the remaining power plants has decreased by RMB15 million from the prior year.

2.2.4 Labor

Labor costs of the Company and its subsidiaries amounted to RMB2.887 billion in 2006, representing an increase of RMB0.4 billion from RMB2.487 billion in 2005. The main reason for the increase in labor costs was that, as a result of the operation of new power plants and the expansion of scale of operations of the Company which contributed the increase of RMB0.261 billion.

2.2.5 Service fees to Huaneng International Power Development Corporation ("HIPDC")

The service fees paid to HIDPC refer to fees paid for use of its grid connection and transmission facilities based on reimbursement of cost plus a profit. The service fees that were paid to HIPDC in 2006 did not experience significant changes when compared with that of prior year.

2.2.6 Other operating expenses

Other operating expenses include expenses such as environmental protection, insurance fee, administrative expenses and amortization, etc. The other operating expenses of the Company and its subsidiaries amounted to RMB1,933 million, representing an increase of 1.57% from RMB1,903 million in 2005. The expansion of scale of operations of the Company and the increase in environmental protection fee levy rates caused the environmental protection fee to increase by RMB55 million. The other operating expenses apart from environmental protection fee decreased by RMB25 million as a result of cost control of the Company.

2.3 Financial expenses

Financial expenses include the net of interest income, interest expense, bank charges and net exchange differences.

2.3.1 Interest Expense

The interest expense of the Company and its subsidiaries in 2006 amounted to RMB1,591 million, representing an increase of 11.53% from RMB1,427 million in last year. The increase was primarily attributable to the expense off of interest expense upon commencement of commercial operation for the newly operated power plants instead of continued capitalization.

2.3.2 Bank charges and net exchange differences

Bank charges and net exchange differences of the Company and its subsidiaries amounted to RMB68 million in 2006, representing a relatively significant change from the RMB249 million of exchange gain less bank charges in 2005. In 2005, RMB appreciated against US dollar and Euro. As a result, loans denominated in US dollar and Euro generated approximately RMB290 million in foreign exchange gain, while in 2006, an exchange gain of RMB112 million was resulted, giving rise to a decrease to a foreign exchange gain of RMB178 million.

2.4 Share of profit of associates

Share of profit of associates in 2006 was RMB791 million, representing an increase of RMB147 million from RMB644 million in 2005. The increase of share of profit of associates has benefited from the increase in investment income from Shandong Rizhao Power Company Ltd. and the inclusion of investment income from Huaneng Finance in the Company's accounts starting from January 2006.

2.5 Enterprise income tax ("EIT")

The EIT of the Company and its subsidiaries amounted to RMB1,128 million, representing an increase of 7.99% from RMB1,044 million in 2005. The increase in EIT was mainly caused by the increase of profit.

2.6 Profit for the year, profit attributable to equity holders of the Company and minority interests

The profit of the Company and its subsidiaries amounted to RMB6.889 billion in 2006, which represented a significant increase when comparing with the profit of RMB5.548 billion in 2005, reflecting that the actual effective implementation of the Company's acquisition and development strategy plays an important role in raising revenue and maintaining profit level. The pace of profit increase was more proportionate than that of the revenue as a result of the effective cost controls implemented by the Company and its subsidiaries. The profit attributable to equity holders of the Company and minority interests increased at similar pace.

2.7 Comparison of financial positions

Compared with 2005, the assets and liabilities of the Company and its subsidiaries experienced a significant change as a result of the increase of expenditure on construction projects in 2006.

2.7.1 Comparison of asset items

As at 31st December 2006, the total assets of the Company and its subsidiaries amounted to RMB113.601 billion, representing an increase of 14.24% from RMB99.440 billion in 2005. Among them, non-current assets increased by 14.88% to RMB100.374 billion and current assets increased by 9.64% to RMB13.226 billion. The major reason for such increases was due to continuous capital expenditure. Current assets increased by RMB1.163 billion from the beginning of 2006. Among them, there was a net decrease of inventories amounting to RMB190 million, mainly caused by the decrease of coal reserve for generating electricity, and a net increase of accounts receivable amounted to RMB955 million, the majority of which was the increase of receivables for electricity sold generated by the newly operated power plants.

2.7.2 Comparison of liability items

As at 31st December 2006, the total liabilities of the Company and its subsidiaries amounted to RMB62.992 billion, representing an increase of 18.19% from RMB53.296 billion as at 31st December 2005 mainly due to the increase in borrowings for the financing of construction projects. The non-current liabilities of the Company and its subsidiaries mainly consisted of bank loans and shareholder's loans that are of similar terms as bank loans. The current liabilities at year end increased comparing with the beginning of the year as a result of expansion of scale of operation of the Company.

As at 31st December 2006, total interest-bearing debts of the Company amounted to RMB52.006 billion, which included long-term loans (inclusive of current portion), short-term loans, short-term bonds and notes payable. Among these, liabilities denominated in foreign currencies amounted to approximately RMB5.281 billion.

2.7.3 Comparison of shareholders' equity items

Excluding the impact of profit and dividend distribution in 2006, there was an increase in equity from the beginning to the end of 2006. This was mainly attributable to the inclusion in our equity of RMB426 million of the difference between the market value at the end of 2006 and the net book value in the beginning of 2006 of our available-for-sale investment (investment in China Yangtze Power Co., Ltd.), gross of tax.

2.7.4 Major financial position ratio

	2006	2005
Current ratio	**0.50**	0.52
Quick ratio	**0.42**	0.42
Ratio of liabilities and shareholders' equity	**1.45**	1.33
Multiples of interest earned	**3.87**	3.77

Formula of the financial ratios

Current ratio	=	balance of current assets as at the year end / balance of current liabilities as at the year end
Quick ratio	=	(balance of current assets as at the year end - net inventories as at the year end) / balance of current liabilities as at the year end
Ratio of liabilities and shareholders' equity	=	balance of liabilities as at the year end / balance of shareholders' equity (excluding minority interests) as at the year end
Multiples of interest earned	=	(profit before tax + interest expense) / interest expenditure (inclusive of capitalized interest)

The current ratio and quick ratio remained at a relatively low level in which current ratio decreased at the year end when compared to the beginning of the year. The significant increase in the ratio of liabilities and shareholders' equity at the year end when compared to the beginning of the year was mainly due to the significant increase in borrowings for the new construction projects. The multiples of interest earned increased from that of the same period of the prior year mainly due to the increase of profit brought by the newly operated power plants.

II. Liquidity and Cash Resources

1. *Liquidity*

	2006 RMB billion	2005 RMB billion	Change (%)
Net cash provided by operating activities	**11.495**	8.680	32.43
Net cash used in investing activities	**(15.916)**	(15.413)	3.26
Net cash provided by financing activities	**4.980**	7.085	-29.71
Net increase in cash and cash equivalent	**0.559**	0.352	58.81
Cash and cash equivalent, beginning of year	**2.648**	2.296	15.33
Cash and cash equivalent, end of year	**3.207**	2.648	21.11

Net cash provided by operating activities is the main source of cash for the Company. The net cash provided by operating activities amounted to RMB11.495 billion in 2006 which was higher than that of the prior year mainly because of an increase in the scale of operations. Net cash used in investing activities mainly consisted of capital expenditures for the purchase of property, plant and equipment. The Company expects that 2007 will remain as a year with concentrated construction projects with relatively large amounts.

As at 31st December 2006, the net current liabilities of the Company and its subsidiaries totaled to RMB13.3 billion. Based on the successful financing record of the Company, the significant amount of undrawn banking facilities available to the Company and the stable operating results, the Company believes that it will be able to meet its liabilities as and when they fall due and meet the capital required for operations. In addition, the Company will continue to minimize interest expense by issuing short-term bonds. The Company is confident that it will be able to control the level of its liabilities and financial risks.

2. *Capital expenditure and cash resources*

2.1 *Capital expenditures*

The capital expenditures in 2006 amounted to RMB16.286 billion, which was mainly used to capital expenditures on construction and renovation, including RMB1,136 million for the Huaiyin Phase III project, RMB499 million for the Haimen project, RMB352 million for the Taicang Phase II project, RMB477 million for the Yueyang Phase II project, RMB1,019 million for the Shanghai Combined-Cycle project, RMB1,647 million for the Luohuang Phase III project, RMB1,085 million for the Xindian Phase III project, RMB986 million for the Yingkou Phase II project, RMB4,397 million for the Yuhuan project and RMB706 billion for Shang'an Phase III project. Other expenditure mainly consisted of pre-construction expenditure and routine renovation expenditure amounting to RMB2.666 billion and RMB1.316 billion respectively.

The Company will continue to incur significant capital expenditures in 2007. The Company will actively engage in new project developments in order to lay the foundation for the long-term development of the Company. The Company expects to finance the above capital expenditure through internal funding, debt financing and cash flows provided by operating activities.

2.2 Cash resources and anticipated financing costs

The Company expects the cash resources for capital expenditure and acquisition to be primarily generated from internal funds, cash flow from operating activities and future debt and equity financing.

Good operating results and good credit status provide the Company strong financing capabilities. As at 31st December 2006, the Company and its subsidiaries obtained from banks undrawn facilities of RMB25.61 billion, which provided the Company with a sufficient level of available cash and effectively raised the level of asset liquidity and repayment capability of the Company.

As at 31st December 2006, the total short-term borrowings of the Company and its subsidiaries amounted to RMB7.824 billion with interest rates charged between 4.30% and 5.51% per annum (2005: RMB6.581 billion with interest rates charged between 4.30% and 5.76% per annum); the total amount of the short-term bonds of the Company and its subsidiaries amounted to RMB5.078 billion.

As at 31st December 2006, the total long-term bank borrowings of the Company and its subsidiaries amounted to approximately RMB35.206 billion (2005: approximately RMB28.365 billion). These loans included bank borrowings denominated in Renminbi of approximately RMB30.096 billion (2005: approximately RMB22.241 billion), US dollar of approximately US$567 million (2005: approximately US$672 million), and Euro of approximately Euro66 million (2005: approximately Euro73 million). Included in these borrowings were approximately US$54 million (2005: US$60 million) of floating-rate borrowings. For the year ended 31st December 2006, the long-term bank borrowings bore interest rates that ranged from 2% to 6.97% (2005: 2% to 6.97%) per annum.

As at 31st December 2006, the total long-term shareholder's loans to the Company and its subsidiaries amounted to RMB2.80 billion (2005: RMB2.80 billion). For the year ended 31st December 2006, these borrowings bore interest rates that ranged from 4.05% to 5.02% (2005: 4.05% to 5.02%) per annum.

As at 31st December 2006, other long-term loans of the Company and its subsidiaries amounted to approximately RMB424 million (2005: approximately RMB864 million). These loans included borrowings denominated in Renminbi of approximately RMB254 million (2005: approximately RMB647 million), US dollar of approximately US$13 million (2005: approximately US$16 million) and Japanese Yen of approximately JPY1.071 billion (2005: approximately JPY1.31 billion). The US dollar and Japanese Yen borrowings were at floating rates. For the year ended 31st December 2006, these borrowings bore interest rates that ranged from 4.94% to 6.12% (2005: 2.99% to 6.12%) per annum.

The Company and its subsidiaries will closely monitor changes in the exchange rate and interest rate markets and cautiously assess the currency risk and interest rate risks.

Combining the current development of the power generation industry and the growth of the Company, the Company will make continuous efforts to not only meet cash requirements of daily operations, construction and acquisition, but also establish an optimal capital structure to minimize the cost of capital and manage financial risks through effective financial management activities, thereby maintaining sustainable and stable returns to the shareholders.

2.3 Other financing requirements

The objective of the Company is to bring long-term, stable and growing returns to the shareholders. In line with this objective, the Company follows a proactive, stable and balanced dividend policy. In 2007, in accordance with the profit appropriation plan of the board of directors of the Company (subject to the approval of the shareholders' meeting), the Company expects to pay a cash dividend of approximately RMB3.376 billion.

2.4 Table of borrowings maturity

Unit: RMB billion

Item	**2007**	**2008**	**2009**	**2010**	**2011**
Principal planned to be repaid	16.5	4.3	9.5	4.3	3.4
Interest planned to be repaid	2.3	1.7	1.3	0.9	0.7
Total	18.8	6.0	10.8	5.2	4.1

Note:

(1) This table is prepared according to the amounts in the contracts which have been entered into;

(2) The amount of the principal to be repaid in 2007 is relatively large because this includes expected repayments of short-term borrowings and short-term bonds. The amount of the principal to be repaid in 2009 is relatively large because a significant amount of the long-term loans borrowed in 2006 have a three-year maturity period.

III. Trend Analysis

1. Power Market

In the power market, the rapid growth of the national economy, the continuous increase in national living standard will cause an increase in power demand, providing opportunities for the Company to expand and develop more projects. However, with the commencement of commercial operations of new generations in recent years, market competition may be more fierce, and the utilization hours of the generating units are expected to drop in 2007.

The implementation of the State policies of "encouraging to build large generating units, closing small generating units", and "saving of resources and reducing the emission of pollutants" provide opportunities to the Company to enjoy advantages with large generating units, high efficiency and wide service coverage, thereby enhancing its competitiveness. However, it will also be a challenge for the Company as to how to capitalize the opportunities, make a good use of the policies and turn its advantages into accelerating the development and achieving good operating results.

2. Impact of coal demand and supply on the Company

In the coal market, coal supply and demand is basically balanced, and the tension of coal transportation has been relatively relieved, hence providing a favorable condition for the supply of coal for power plants. However, the coal prices of key contracts have a relatively large increase and spot-market coal prices still hover at a high level, bringing challenges to the Company in terms of fuel cost control.

3. Impact of the financial and foreign exchange markets on the Company

There are sufficient funds in the domestic financial market and there are no significant fluctuations in funding costs. Because of the good loan repayment capabilities and credit status of the Company, the Company is confident in raising sufficient funds for construction of power plants and daily operations by using various financial products.

The reforms of the Renminbi exchange rate setting mechanism increased exchange rate flexibility. However, as both the scales of the use of foreign exchange for the import of equipment and materials and foreign exchange payments in servicing foreign currency borrowings are not significant, it is anticipated that the reforms will not have a significant impact on the cash flow of the Company.

IV. Performance of Significant Investments and Their Prospects

On 22nd April 2003, the Company paid RMB2.39 billion to acquire a 25% equity interest in Shenzhen Energy Group. This investment brought the Company a profit of RMB396 million in 2006 under IFRS. Shenzhen Energy Group is the largest power supplier in Shenzhen and its power plants are located in one of the most prosperous provinces - Guangdong Province. With strong demand for electricity in that region, it is expected that such an investment will bring stable returns to the Company in the future.

In July 2004, the Company paid RMB1.375 billion to acquire a 40% equity interest in Hanfeng Power Company. This investment brought the Company a profit of RMB212 million in 2006 under IFRS.

Hanfeng Power Company is located in Hebei Province in northern China and there is a strong demand for electricity in that region. The Company expects this investment will contribute stable returns in the future.

V. Employee Benefits

As at 31st December 2006, the Company and its subsidiaries had 23,508 employees. The Company and its subsidiaries provided the employees competitive remunerations and linked such remunerations to operating results as work incentives for the employees. Currently, the Company and its subsidiaries do not have any non-cash remuneration packages.

Based on the development plans of the Company and its subsidiaries and the requirements of individual positions, together with consideration of specific characteristics of individual employees, the Company and its subsidiaries tailor-made various training programs for their employees on management skills, technical skills, marketing skills and incentives. These programs enhanced both the knowledge and operational skills of the employees.

VI. Related Party Transactions

The Company entered into various transactions with Huaneng Group, HIPDC and their group companies in the ordinary course of business, including but not limited to operating leases on land use rights and property, electricity transmission equipment and fuel purchases and transportation. Such transactions were for daily operations at terms with no difference from those for third parties and do not have any material impact on the business and operations of the Company. In addition, Huaneng Group, HIPDC and the minority shareholders of certain subsidiaries have committed or agreed through contracts to providing guarantees on loans to the Company and its subsidiaries.

Pursuant to relevant agreements, the Company rendered management services to power plants owned by Huaneng Group and HIPDC at fees covering the Company's administration costs and a reasonable profit. In 2006, such service fee income amounted to RMB43.48 million which was less than 1% of the operating revenue of the Company in 2006.

VII. Guarantees on Loans and Restricted Assets

As at 31st December 2006, the balance of the guarantees provided by the Company to Rizhao Power Company, an associate amounting to RMB123 million.

As at 31st December 2006, certain property, plant and equipment of Sichuan Hydropower, a subsidiary of the Company, were used to secure borrowings. The original acquisition cost of such pledged assets was approximately RMB90 million.

As at 31st December 2006, restricted bank deposits amounted to RMB204 million, which were mainly deposits for letters of credits.

The Company had no contingent liabilities as at 31st December 2006.

VIII. Accounting standards having a significant impact on the financial statements of the Company and other matters

Please refer to Notes 2(a) and 2(v) to the financial statements prepared under IFRS for details on the changes in accounting policies which had a significant impact on the financial statements of the Company for 2006 and after the balance sheet date respectively.

On 4th January 2007, Huaneng Group injected an additional capital of RMB615 million in Sichuan Hydropower, thus increasing its direct equity interest in Sichuan Hydropower to 51% from 40% while diluted the Company's equity interest to 49% from 60%. As Sichuan Hydropower is currently controlled by Huaneng Group, its accounts will no longer be consolidated into the Company's financial statements starting from 2007.

In 2007, the government promulgated the Corporate Income Tax Law which will be effective from 1st January 2008. The existing Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and Provisional Regulations of the People's Republic of China on Enterprise Income Tax will be abolished simultaneously. Currently, the power plants of the Company and its subsidiaries applied Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and Provisional Regulations of the People's Republic of China on Enterprise Income Tax. There will be a five-year transitional period for those entities currently using Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and going to adopt Corporate Income Tax Law. As there are still no detailed rulings released, the Company will continue to assess the impact of such new law in the future.

IX. The Operation plans of the Company in 2007

1. To strengthen production safety manangement and to ensure safe, stable and increasing power generation;

2. To strengthen coal purchase management to ensure safe, stable and effective supply of coal;

3. To strengthen marketing work and cost controls to increase revenue, save cost and enhance economic efficiency;

4. To strengthen the management of construction projects to ensure the projects will be completed at high quality, fast pace, low cost and in accordance with schedules.

5. To seek the opportunities in acquiring assets to ensure a long-term, stable and healthy development of the Company;

6. To strengthen environmental protection and fuel saving and continue to strengthen technological renovation to continuously improve the efficiency of the generating units; and

7. To encourage management innovation and establish long-term and effective internal control mechanism.