

7 August 2017

## CLP Holdings Limited Announces Stable 2017 Interim Results

CLP Holdings Limited (CLP) is pleased to announce that in the first half of 2017 the Group continued to deliver largely stable earnings amid challenging markets and secured regulatory certainty in Hong Kong.

During this period, the Group's operating earnings were HK\$5,914 million, a decrease of 3.8% compared with the first half of 2016, largely due to unfavourable market conditions in Mainland China and the impact of increased volatility in the Australian energy market. Total earnings decreased by 3.5% to HK\$5,909 million. The Board decided to increase the level of our first and second interim dividends from HK\$0.57 per share in 2016 to HK\$0.59 per share this year.

"While the performance of our business in Hong Kong remained steady, our operations outside Hong Kong reported mixed results under increasingly challenging market conditions. This is a reflection of the transformation that is taking place in the power sector in Mainland China, Australia and India, as well as the specific conditions pertaining to these markets. CLP is well-prepared to recognise and seize the opportunities that these changes are bringing, benefitting from a diversified portfolio," said Richard Lancaster, Chief Executive Officer of CLP, at the Group's 2017 interim results announcement media briefing.

### ***Hong Kong***

In the first six months of 2017, our electricity business in Hong Kong continued to be the Group's major earnings contributor, reporting a 1.9% rise in operating earnings to HK\$4,356 million compared with the same period last year.

In April, we signed a new Scheme of Control Agreement with the Hong Kong Government. The new agreement, which will run for 15 years from 2018 to 2033, provides the regulatory and economic certainty required for CLP to plan ahead and make appropriate investments to deliver the Government's energy objectives and meet the emerging needs of our customers.

In support of the Hong Kong Government's target to increase natural gas use to about 50% in 2020, we continued the construction of our new 550MW gas-fired generation unit at the Black Point Power Station. We plan to commission the new unit before 2020. At the same time, our proposal to construct an offshore LNG terminal in Hong Kong waters is progressing well. The environmental impact assessment study is ongoing and we plan to submit it for Government's approval in the fourth quarter. Preparations for the commercial arrangements for LNG supply are also under way.

In the first half of 2017, we invested HK\$3.5 billion in our generation, transmission and distribution networks, as well as our customer service and supporting facilities, to maintain and enhance electricity supply and to support the Government's new infrastructure projects. During the period, total electricity sales, including local sales and sales to the Mainland, decreased by

2.7%. Sales of electricity within Hong Kong were down 2.6% compared to the first half of 2016 while sales to Mainland China were slightly lower.

Looking ahead, CLP will continue to work with the Government towards its carbon reduction targets while raising standards of customer service and supply efficiency. We will also prepare for the new initiatives under the new SoC Agreement, including the Feed-in-Tariff programme to promote renewable energy installations, renewable energy certificates for customers who choose to support local renewable energy development, the new CLP Eco Building Fund to support building energy efficiency upgrades, and the CLP Community Energy Saving Fund to support the use of energy efficient appliances and equipment. We will continue to engage with our customers and stakeholders to ensure the new initiatives will bring long-term benefits to the community.

### ***Mainland China***

In Mainland China, higher coal prices and overcapacity were the main factors behind a 24.3% drop in our operating earnings to HK\$637 million. The country's slowing pace of economic growth and structural reform to shift away from heavy industry affected the performance of our thermal power plants. In particular, low demand and oversupply in Guangxi affected utilisation of the Fangchenggang Power Station. To enhance our competitiveness, we have undertaken a number of initiatives which include carrying out market sales transactions with large local electricity users, participating in the Guangxi Power Exchange Centre as one of its founding members, and making timely adjustments to our fuel procurement strategies.

Overall earnings of our renewable projects in the first half of 2017 were higher. Earnings from our solar projects increased, mainly due to better solar resources and a greater contribution from Sihong Solar, which we took full ownership in July 2016. Our wind portfolio also benefited from the addition of new projects in the second half of 2016, but earnings from our hydro projects declined largely because of a reduction in rainfall at Huaiji in Guangdong. Meanwhile, generation from Daya Bay increased during the period. This underlines the benefit of having a diversified generation portfolio such as ours, especially as Mainland China continues to transition to a low carbon economy.

Our acquisition of a 17% stake in Yangjiang Nuclear Power Co., Ltd in Guangdong is an important step to expand the Group's non-carbon emitting portfolio and to support China's commitment to reducing coal's dominance in the energy mix. We continued to work closely with CGN Power to complete the acquisition which will add over 1,100MW of non-carbon emitting generation capacity to CLP's portfolio.

We expect the challenging operating environment characterised by high coal prices and low electricity demand growth will continue in China's power market. We will maintain our focused strategy to develop low carbon projects, and our priority in the second half of the year will be the completion of the Yangjiang transaction. Meanwhile, we will continue to explore new opportunities by pursuing more market sales programmes to increase utilisation of our projects.

### ***India***

In India, our renewable energy portfolio and our gas-fired station at Paguthan continued to contribute steady earnings. In the first six months, operating earnings increased by 21.0% to HK\$242 million, compared with the same period in 2016.

Substantial progress has been made on the construction of the 100MW Veltoor solar farm, our first solar project in India, with full operations expected in the second half of the year.

Commissioning of the project will bring our total renewable capacity in India to close to 1,000MW. Over the same period, generation of our wind projects improved by about 7% from the corresponding period last year because of better machine availability. We have discontinued construction of the 30MW Yermala wind project because of land issues.

Due to a planned outage in April and May, the availability of Jhajjar Power Station fell to around 70%, which is lower than the normative level of 80% for complete recovery of fixed cost. We expect availability levels to gradually return to the normative level for the full year following the completion of the planned outage. Utilisation remained low amid slowing economic growth and surplus capacity in the state of Haryana. However for India's financial year ended 31 March 2017, Jhajjar not only fully recovered its fixed cost, but also received incentive thanks to its high availability of around 92%.

Meanwhile, at Paguthan Power Station, availability remained high at around 90% during the first half of the year. The project fully recovered its fixed cost over the financial year ended 31 March 2017. Utilisation was low at around 2.5% because subsidised imported gas was not available and generation using imported spot gas was expensive, making electricity dispatch unattractive for our customers.

India's economic growth has been slower, which has had a negative impact on power demand. However, we remain confident of the long-term prospects of India's power industry. In the second half of the year, our focus is on maintaining the high availability of Jhajjar and Paguthan and enhancing their utilisation. We also aim to maintain the wind turbines in good condition to benefit from the high winds during the monsoon season. The completion of Veltoor Solar Project in the second half will also be a priority.

### ***Southeast Asia and Taiwan***

Our Ho-Ping project in Taiwan continued to perform well and reliably. However, the impact of high coal prices was felt in Taiwan and Ho-Ping's earnings were affected. In Thailand, operation and earnings of the Lopburi solar farm remained stable. Meanwhile, in Vietnam, we pressed ahead with our discussions with the government and the financing arrangements for the Vung Ang II and Vinh Tan III development projects.

### ***Australia***

In the first half of the year, EnergyAustralia's operating earnings decreased 15.5% to HK\$758 million, largely due to the impact of significant volatility in the market on the value of energy contracts.

During this period, prices in the wholesale market remained high and volatile as gas became increasingly scarce and expensive, one ageing coal-fired generator was removed from service, and regulatory uncertainty continued. These factors, combined with a hot summer, resulted in high costs for users of energy.

Despite the challenging market, EnergyAustralia has continued its programme to restore value by enhancing customer service, improving operational efficiency, and reducing costs. Our retail business performed well in the first six months of 2017. Although the market remained competitive, our retention of existing customers continued to be favourable to overall market churn and we have increased the total number of customer accounts. In addition, higher electricity and gas volumes as a result of weather conditions supported our retail business performance.

However, higher wholesale prices and the higher demand driven by warmer weather have adversely impacted purchase costs for our mass market electricity customers. This was only partially offset by the increased contribution from generation during the period. The closure of Hazelwood Power Station in Victoria combined with the continued operation of Alcoa's Portland Aluminium Smelter had a significant impact on market dynamics and wholesale prices.

Margins were adversely impacted in our gas portfolio as historic contracts were replaced at higher prices, reflecting a tighter gas market following the retirement of Hazelwood. The announcement by the Federal Government that gas exports could be limited is a direct response to ensure adequate local short term gas supply.

Coal supply at Mount Piper Power Station remained our management focus. During this period, Mount Piper has produced less energy than in the same period last year, in large part because of coal quality issues affecting production. We continue to work with our coal supplier to secure long-term coal supply of appropriate quality.

Against a backdrop of uncertain energy policies, the energy market in Australia remains very challenging, leading to a period of high and volatile wholesale prices. Our integrated business model and the good operational performance have helped minimise the impact of this volatility. Looking to the longer term, a recent review of the Australian power sector has yielded proposed recommendations for Australia's electricity future. We will work closely with the governments, regulators, industry players and customers to understand its implications and discuss the best way to implement it.

### **Safety**

There were two separate fatal accidents that resulted in the deaths of four contractor workers in our Hong Kong business this year. We would like to express our deepest condolences to the families of the men who lost their lives. We provided prompt support to the families of the deceased and set up internal panels to look into the accidents. We also continue to provide full support to the investigations undertaken by the Government.

*For more details, please refer to the full version of ["Announcement of Interim Results from 1 January 2017 to 30 June 2017, Dividend Declaration and Closure of Books"](#).*

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