

CLP Climate Action Finance Framework

June 2020 Version

CLP Holdings Limited (“CLP”) first published the CLP Climate Action Finance Framework (“CAFF”) in July 2017. The CAFF has been updated to reflect the increased climate related commitments made by CLP in its updated Climate Vision 2050 published in December 2019¹ and to reflect CLP’s broader range of financial transactions that CLP is considering to raise funding for its climate actions.

1. Introduction

CLP is one of the largest investor-owned power businesses in Asia Pacific. In Hong Kong, through CLP Power Hong Kong, it operates a vertically-integrated electricity supply business providing a highly-reliable supply of electricity. Outside Hong Kong, CLP holds investments in the energy sector in Mainland China, India, Southeast Asia, Taiwan, and Australia. Its diversified portfolio of power generation assets include coal, gas, nuclear and renewables (wind, hydro, solar).

CLP’s vision is to be the leading responsible energy provider in the Asia-Pacific region, not just for this generation, but from one generation to the next. To achieve this, we strive to produce and supply energy with minimal environmental impact to create value for shareholders, employees and the wider community. We run our business with an important purpose – to power the sustainable development of communities and society.

Electricity is at the very heart of climate change. CLP is progressively decarbonising its portfolio of generation assets and supporting customers to improve energy efficiency. As a provider of an essential service, CLP strives to meet the electric power needs of the communities we serve. CLP has calibrated its energy transition ambitions to the needs and aspirations of those communities and taking into account technology development. Fossil fuels sometimes are necessary for a smooth transition to a low carbon economy, for example, the proposal of building new combined cycle gas turbine plants at Black Point Power Station to support the Hong Kong Government’s policy of increasing the share of gas in the Hong Kong fuel mix for power generation. Whilst renewable energy is an attractive option, in some markets there are circumstances where the supporting infrastructure must grow incrementally before renewables can offer a significant and more commercially viable solution. Therefore, our climate strategy, as manifested in our Climate Vision 2050, targets to reduce the carbon intensity of CLP group’s investment portfolio and increase the renewable portion of our investments progressively.

This CAFF sets out how CLP proposes to raise climate action finance including bonds, loans and other forms of finance (“CLP Climate Action Finance Transactions”) and to use the proceeds of those CLP Climate Action Finance Transactions to invest in projects that are consistent with CLP group’s strategy to respond to the climate change challenges. This strategy should be consistent with CLP group’s investment strategy from time to time.

2. CLP Climate Action Finance Transactions

CLP group business units that are majority owned by CLP (“CLP Group Business Units”) may enter into CLP Climate Action Finance Transactions under the CAFF. There are two types of CLP Climate Action Finance Transactions – Energy Transition Finance Transactions and New Energy Finance Transactions.

¹ <https://www.clpgroup.com/en/sustainability/our-approach/frameworks-strategies/climate-vision-2050>

3. Use of Proceeds

A. Energy Transition Finance Transactions

The proceeds of Energy Transition Finance Transactions will be applied to finance or refinance, in whole or in part, investments in: 1) the building of natural gas fired power plants, and associated enabling infrastructure including facilities required for the receipt and delivery of gas to the plants, where the opportunities to develop renewable energy is limited; and 2) the conversion of coal fired power plants, and the facilities or modifications associated with such conversion, which, in both cases, will result in carbon emission no more than 450gCO₂/kWh² at baseload.

B. New Energy Finance Transactions

The proceeds of New Energy Finance Transactions will be applied to finance or refinance, in whole or in part, investments in:

- 1) generation of energy from renewable sources including wind, solar, waste-to-energy, tidal, hydro (< 25MW) and biomass energy (using sustainable feedstock sources) and associated assets (including dedicated transmission infrastructure);
- 2) improvements in energy efficiency including smart grid and smart metering systems; and
- 3) low carbon transport infrastructure including dedicated electric vehicle charging infrastructure.

Use of proceeds could cover, but not limited to, pre-operating costs, interest or coupon paid during construction, finance transaction costs and other direct or indirect costs related to the investment projects.

At the time of entering into a CLP Climate Action Finance Transaction, the relevant CLP Group Business Unit that is entering into a CLP Climate Action Finance Transaction will provide details of use of proceeds where this is known and information is available at the time of issuance.

Investments may benefit the environment in important ways but also degrade it in others. The relevant CLP Group Business Unit will assess the net sustainability benefits and consider the balance of impacts in determining overall net benefit.

4. Implementation of the CLP Climate Action Finance Framework

CLP Group Business Units will make their own determination as to whether they wish to enter into a CLP Climate Action Finance Transaction under the CAFF. The CLP Group Climate Action Finance Committee ("CAFC"), made up of senior management including representatives from each of finance, sustainability and legal departments will review and approve all CLP Climate Action Finance Transactions under the CAFF. CLP Group Business Units will propose to the CAFC eligible projects that can fulfil the criteria as set in Section 3 in this CAFF for the deployment of proceeds from CLP Climate Action Finance Transactions.

A CLP Group Business Unit choosing to enter into a CLP Climate Action Finance Transaction must fully comply with the CAFF over the full tenor of the respective CLP Climate Action Finance Transaction.

² Based on UK Energy Act 2013 (Part 2, Chapter 8, Section 57 (2))

5. Management and Tracking of the Proceeds of Issuance

The proceeds of each CLP Climate Action Finance Transaction will be credited to dedicated bank accounts/deposits which are normally used for liquidity management purposes of the corresponding CLP Group Business Unit pending allocation to eligible projects in accordance with Section 4 above. Each corresponding CLP Group Business Unit will maintain a register to properly keep track of the use of proceeds for each CLP Climate Action Finance Transaction. The register will record the amount and nature of each allocation made and the remaining balance of unallocated proceeds.

6. Reporting on Use of Proceeds

CLP Group will prepare a Climate Action Finance Report on an annual basis. For each CLP Climate Action Finance Transaction, the followings will be disclosed:

- Identity of the CLP Group Business Unit that has entered into a CLP Climate Action Finance Transaction;
- Type of CLP Climate Action Finance Transaction entered into (i.e. Energy Transition Finance Transaction or New Energy Finance Transaction);
- Aggregate amounts of proceeds allocated;
- Estimation of beneficial impact of the use of proceeds; and
- The remaining balance of unallocated proceeds at the reporting period end.

A CLP Climate Action Finance Transaction will be added to or removed from the Climate Action Finance Report as below:

- A CLP Climate Action Finance Transaction is added to the Climate Action Finance Report when the CLP Climate Action Transaction was entered into during the reporting period;
- A CLP Climate Action Finance Transaction is removed from the Climate Action Finance Report when the CLP Climate Action Finance Transaction has been fully repaid.

The Climate Action Finance Report will provide further information on projects with allocations from proceeds of CLP Climate Action Finance Transactions.

The Climate Action Finance Report will be reviewed by the CAFC. The Climate Action Finance Report will be published within the CLP's Sustainability Report.

7. Assurance

CLP will engage an appropriate external assurance provider to independently assure the contents of the Climate Action Finance Report as appropriate.