18 August 2009

CLP Holdings Limited Announces 2009 Interim Results

Financial Highlights

- Group operating earnings before one-off items for the first half of 2009 decreased 32.5% to HK$3,603 million, with total earnings (including one-off items) falling by 42.3% to HK$3,235 million.
- Consolidated revenue dropped 14.6% to HK$23,503 million.
- Earnings from our electricity business in Hong Kong decreased by 27.6% to HK$2,925 million, with revenue down by 13.2% to HK$12,979 million, primarily due to the reduction of the permitted return.
- Second interim dividend of HK$0.52 per share.

The past six months saw a decline in operating earnings to HK$3,603 million, down by 32.5% from the same period last year. Total earnings were HK$3,235 million, representing a decrease of 42.3% against the previous period. This reflected the full impact of lower permitted return under the new Scheme of Control (SoC) in Hong Kong effective from 1 October 2008, fall in electricity demand in Chinese Mainland resulting from the economic downturn, exchange rate movements lowering earnings from Australia and India and a one-off provision for investment in Solar Systems in Australia. Despite the fall in earnings, the CLP Group's financial position remains strong. Notwithstanding the substantial deterioration in the global economic climate which we have all witnessed over the past months, all ratings of the Group's major entities remain at investment grade, enhancing our position in Hong Kong and overseas business activities, including fund raising, investment and new business opportunities. This reflects our prudent approach to the management of CLP's financial resources, cash flows and balance sheet in line with the longstanding policy of the Board.

Hong Kong

In the first half of 2009, local electricity sales increased by 0.6% over the same period last year. This was mainly due to the hot weather in June which reversed the negative sales growth of the first 5 months. Total electricity sales, including both local sales and sales to Chinese mainland, declined by 0.9% over the period because of the weak economy which forced many factories in Guangdong to close.

2009 will see the first full year effect of the significant reduction in shareholder earnings from our Hong Kong electricity business, resulting from the cut in permitted return under the SoC, by which that business is regulated. This lies behind the substantial fall in earnings from this business to HK$2,925 million, as against HK$4,040 million in the first six months of 2008, when our business was still operating under the previous SoC.

Shareholders will have expected, and will readily understand, this fall in operating earnings. However, looking ahead, we are confident that our Hong Kong electricity business will remain at the centre of the Group's activities and will continue to offer opportunities for value enhancing investment.

The Development Plan for 2008 to 2013, approved by Government as part of the new SoC, contemplates substantial investments in generation, power systems, customer services and other supporting facilities in order to enhance supply quality and reliability, as well as providing for demand created by infrastructure development projects.

Good progress has been made on the implementation of the Memorandum of Understanding signed in August 2008 between the Central People's Government and the Government of the Hong Kong SAR on the continued supply of natural gas and nuclear energy to Hong Kong from the Mainland. Work continues with Mainland oil companies to secure gas sources. Planning and design work is progressing well for the development of infrastructure necessary to bring the gas to Hong Kong, including a new LNG receiving terminal in Shenzhen and the subsea gas pipeline to Black Point Power Station.

Chinese Mainland

Excluding our investment in the Daya Bay Nuclear Power Station which supports our Hong Kong business, our Chinese mainland investment suffered a loss of HK$97 million during the first half of 2009, contrasting with earnings of HK$34 million for the same period in 2008.

The electricity generation sector in the Mainland has seen unstable and generally unfavourable operating conditions in recent times. The global economic downturn has led to reduced electricity demand and generation. In the case of coal-fired generation in regions such as Guangxi, this has been exacerbated by a surplus of hydro power due to high rainfall, resulting in lower grid dispatch and negatively impacting our

Fangchenggang power station. We expect that this situation will gradually improve but revenue will be adversely affected in the short-term.

Volatile coal prices and restrictions on the ability of generators to pass on fuel prices to their offtakers have also aggravated the difficult operating environment. Although there has been a significant reduction in coal prices compared to the high levels seen during 2008, the tariff adjustments allowed by the PRC authorities have still not allowed us and our fellow Mainland electricity generators to recover the full impact of increased fuel costs.

However, we are optimistic that the Mainland's underlying economic strength will see a gradual return to electricity demand growth in the coming months and that the relevant authorities will work to restore market stabiliy through properly safeguarding the legitimate interests of electricity generators and continuing to promote the ongoing increase in generating capacity which the Mainland will require.

Australia

First half earnings of our Australia business rose to HK$204 million against HK$115 million for the corresponding period in 2008 upon the strong focus by the Board and management on improved business operations and disciplines within TRUenergy.

The quality of the TRUenergy business and the successful outcome of the initiatives taken by management to reduce operating costs and enhance earnings continue to be overshadowed by the Australian Federal Government's proposal to introduce a Carbon Pollution Reduction Scheme (CPRS), even before agreement has been reached on a wider global accord on measures needed to tackle the threat of climate change.

CLP supports and welcomes practical, fair and well thought out proposals to respond to the impact on mankind of catastrophic climate change. Our own actions, including our substantial commitment to renewable energy investment, as part of our Climate Vision 2050, speak loudly and convincingly to that commitment.

The CPRS Bills were rejected by the Australian Senate last week. With the uncertainty surrounding the CPRS, we are already seeing a significant negative impact on the generation sector. This includes cuts in expenditure on long term maintenance and capital investment, difficulties in securing long term debt funding, a growing inability to enter into forward contracts for the sale of electricity from brown coal generation and a decline in investors' appetite, especially amongst international investors such as ourselves, to participate in Australia's electricity sector.

TRUenergy will continue to advocate for appropriate transitional support to allow a smooth transition to a lower-carbon economy and not risking the reliability of energy supply.

Solar Systems

Solar Systems, the solar technology development company in Australia in which CLP holds a 20% equity stake, has had difficulty raising further capital to enable the continuous development and eventual commercialisation of its solar technology. We believe that Solar Systems' technology shows technical promise. However, Solar Systems' fund raising efforts have taken place in a very challenging financial market, particularly for start-up solar companies facing the difficulties of obtaining financing for large scale projects, uncertain valuations and increased competition from established solar companies, who have reduced their margins in response to the recent demand slowdown.

Given the general uncertainty on the availability of financing for solar investments in the current market, and our Company's fundamental strengths as an investor and operator of projects, we do not believe that it is justifiable for CLP to continue funding a technology business without an additional strategic or financial partner to share the ongoing development risks. Therefore, in accordance with our prudent approach towards our financial accounts, we have decided to make a provision for the investment in Solar Systems resulting in a net loss to the Group of HK$346 million.

Notwithstanding this provision, we remain confident that good solar project opportunities will be realised when appropriate government policies are in place. We will however take a very cautious approach towards future technology investment opportunities.

India

Our underlying financial performance in India remained steady. Operating earnings in the first six months of 2009 were HK$159 million compared to HK$263 million in the previous year. The fall of HK$104 million is mainly attributable to the depreciation of the average Indian rupee exchange rate against the Hong Kong dollar by 17.6% and lower interest income and cost incurred on the development of the wind and Jhajjar projects.

Construction of our 1,320MW project in Jhajjar started in January 2009 and is proceeding satisfactorily, with the two units of the plant due for commissioning in December 2011 and May 2012, respectively.

In June 2009, CLP acquired from Roaring 40s a 100% stake in the 50.4MW Khandke Wind Farm in Maharashtra, India. To date, CLP is the largest external wind developer in India, with a renewable energy portfolio comprising 347.2 equity MW.

The outlook for CLP India continues to be positive. There are significant opportunities available across the electricity industry, including further wind power projects and transmission investments.

Southeast Asia and Taiwan

Earnings from our investments in Southeast Asia and Taiwan increased substantially in the first six months of 2009, rising to HK$244 million from HK$75 million in the corresponding period in 2008.

The Ho-Ping Power Station in Taiwan, in which CLP holds an effective 20% stake, was a major contributor to this increase in earnings. This was due to higher recovery of coal price increases under the offtake agreement with Taiwan Power Company, as well as our ability to maintain a sufficient supply of coal at reasonable market prices.

OneEnergy, our 50/50 joint venture with Mitsubishi Corporation, has been restructured so that it continues to be a strong strategic alliance in the pursuit of greenfield power projects in Southeast Asia and Taiwan, by drawing upon both parties' complementary strengths, whilst corporate infrastructure and overheads are streamlined.

Although the economic slowdown may defer programmes to increase electricity generating capacity in markets such as Taiwan, we believe that over the medium to longer term the continuing economic development of Southeast Asia will provide a steady stream of investment opportunities. For example, through OneEnergy we are currently looking at two greenfield coal-fired power station projects in Vietnam, as well as renewable projects in Thailand.

Climate Vision

The end of this year will see the United Nations Climate Change Conference taking place in Copenhagen. CLP will be joining the Copenhagen Conference through our participation in the World Business Council for Sustainable Development which brings an informed business and industry voice to the inter-governmental discussions.

In addition, we also make a material contribution through our substantial investments in renewable energy. We are now amongst the largest external investors in the wind power sectors of both India and China. As at 30 June 2009, our total renewable energy portfolio involved investments in 30 operating and committed projects with a total capacity of approximately 1,200 equity MW, representing about 9% of our total generating capacity.

Summary

The past six months have seen challenging operating conditions for CLP, as they have for so many of our business counterparts, whether in the electricity sector or elsewhere. We have tackled the challenges of the past months squarely and effectively. We have done our utmost to mitigate the downside impact on our business.

Looking ahead, we are optimistic that the outlook for the remainder of the year and beyond will be more favourable. Following the implementation of the new SoC, we anticipate steady earning growth from our core Hong Kong business, albeit from a lower earning base. Markets outside Hong Kong will continue to offer potentially attractive investment opportunities. We must, however, maintain a balance between investing in these opportunities and retaining a strong balance sheet and healthy cash position through a disciplined approach to investments and prioritisation of our capital allocation.

Our financial position remains strong with sustained credit ratings and a healthy balance sheet. We are well-positioned and well-prepared to exploit the opportunities available to us across our various business streams.

For more details, please refer to the full version of "Announcement of Interim Results as from 1 January 2009 to 30 June 2009, Dividend Declaration and Closure of Books"

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