25 February 2010

CLP Holdings Limited 2009 Annual Results

Financial Highlights

- Earnings from our electricity business in Hong Kong decreased by 21.0% to HK$5,964 million due to the first full year impact of the lower permitted return under the new Scheme of Control.
- Earnings from our businesses outside Hong Kong and other earnings increased by 17.3% to HK$3,007 million.
- Total Group operating earnings fell by 12.4 % to HK$8,537million with total Group earnings (including one-off items) falling by 21.4% to HK$8,196 million.
- Consolidated revenue dropped by 6.7% to HK$50,668 million.
- Electricity sales in Hong Kong grew by 1.7% to 30,570 GWh; total sales (which include sales to the Chinese mainland) increased by 2.0% to 34,301 GWh.
- Final dividend of HK$0.92 per share; including interim dividends paid, total dividends for 2009 amount to HK$2.48 per share (2008: HK$2.48 per share).

The Group's total operating earnings in 2009 fell by 12.4% compared to the previous year to HK$8.5 billion, predominantly due to the first full year effect of the reduced rate of permitted return under the new Scheme of Control (SoC) in Hong Kong which took effect on 1 October 2008. Partially offsetting this expected decline, earnings from Australia, India, the Chinese mainland, Southeast Asia and Taiwan all showed substantial increases from 2008. The improved earnings from these businesses reinforce the decision that we took some years ago to diversify our activities beyond our Hong Kong electricity business. The Group's total earnings, which take into account the provisions associated with CLP's investment in Solar Systems and OneEnergy, were HK$8.2 billion, a decline of 21.4% against 2008. Overall, CLP's financial performance has been resilient in 2009 against a volatile and challenging financial and market environment. We achieved good financial results, characterised by a strong rebound in earnings in the second half of the year.

Hong Kong Electricity Business

Local sales grew by 1.7% in 2009, compared to only 0.3% in 2008, primarily attributable to warmer weather and an improving economy. Overall, total unit sales by CLP in 2009, including sales to Guangdong, increased by 2.0% from 2008, as against a decrease of 1.1% in 2008.

During 2009, we invested approximately HK$7.8 billion in generation, transmission and distribution network, customer services and other supporting facilities – all aimed to enhance supply quality, reliability and customer service levels as well as to meet the demand created by ongoing infrastructure development projects in Kowloon and the New Territories.

Works on the emissions control project at Castle Peak “B” Power Station are progressing on schedule. The timely and successful completion of the project is essential in order for CLP to comply with tightening emissions regulations. We have also taken forward the feasibility study for an offshore wind farm development in Hong Kong, involving an initial phase of 90MW with further potential expansion up to a total of 180MW.

Good progress was made on the inter-governmental MOU, which was signed in August 2008 on the ongoing supply of nuclear power and delivery of additional gas for electricity generation in Hong Kong. An extension of the Guangdong Daya Bay Nuclear Power Station joint venture and supply contracts for a further term of 20 years from 2014 was approved by the HKSAR Government in September. The contracts were signed in Beijing in the presence of the Vice President of the PRC, Mr. Xi Jinping and the Chief Executive of the HKSAR, Mr. Donald Tsang.

Significant strides were made in the permitting, design, and commercial arrangements for a new pipeline necessary to deliver natural gas from new sources in the Mainland. The formal submission of the EIA was made in December 2009. Work advanced on the preliminary design and PRC approval process for the Shenzhen LNG receiving terminal, in which CLP will own 25%.

Energy Business in Australia

The most significant challenge for the energy industry in Australia during the year continued to be the uncertainty around the final form of the Australian Government's Carbon Pollution Reduction Scheme (CPRS) and its potential material impact on existing generators, particularly those operating brown-coal fired power stations. We continue to advocate for a clear regulatory framework under which large, experienced operators can continue to invest with confidence in the Australian power sector and that treats existing investors in a fair and equitable manner.

During 2009, total generation from Yallourn Power Station set a new record with gross generation totalling 11,641 GWh. The 420MW combined cycle gas-fired Tallawarra Power Station commenced commercial operations on 23 January 2009.

As regards renewable energy, the newly amended Renewable Energy Target, which increased the amount of electricity that retailers are required to source from renewable energy generation by 2020 to 20%, has encouraged Roaring 40s, a 50-50 joint venture between CLP and Hydro Tasmania, to commit to the 111MW Waterloo wind farm in South Australia, which is expected to be fully commissioned in late 2010.

Solar Systems, the solar technology development company in Australia in which CLP holds a 20% equity stake, had difficulty raising further capital to enable the continuous development and eventual commercialisation of its solar technology amid a very challenging financial market. We did not believe that it was 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, at the time of our Interim Results, we made a full provision for the investment in Solar Systems resulting in a net loss to the Group of HK$346 million. Going forward, we will take a more cautious approach to future technology investment opportunities which involve early-stage technology.

Electricity Business in the Chinese Mainland

Our China business saw a significant rebound in the second half of 2009 in line with a sustained recovery in electricity demand in the Chinese Mainland.

In relation to our Fangchenggang project, during the first half of 2009, the dispatch of Guangxi's coal-fired plants was adversely affected by both a slump in electricity demand as a result of the economic downturn and a surplus of hydropower supply due to high rainfall. The situation turned around in July 2009 on the back of the recovery of the domestic economy. Coal-fired generation increased significantly due to the increase in power demand and reduced hydro generation, with both Fangchenggang units operating at essentially full load in the fourth quarter of 2009. We believe the upward trend of utilisation is sustainable for 2010, due to the continuing recovery of the Guangxi economy.

Our cooperation with Shenhua Group through CSEC Guohua is progressing well. CLP completed its final injection of registered capital in June 2009, so that its equity interest in CSEC Guohua now stands at 30%.

The major focus of CLP's renewable energy activities in 2009 was the expansion of our wind energy business. The start of construction of Qian'an Wind Farm Phase I (49.5MW) in Jilin in September 2009 was a significant milestone. This is CLP's first wholly-owned wind project in China. The expertise and experience gained on this project will be the base from which we can move on to expand our portfolio of wholly-owned wind farms.

In 2009, Ministry of Commerce of the People's Republic of China (MOFCOM) approved CLP's acquisition of 32% of CGN Wind, a joint venture with the China Guangdong Nuclear Power Company (CGNPC), our partner in the Daya Bay nuclear project. The injection of initial equity of HK$1.2 billion is expected in early 2010.

On 1 February 2010, CLP agreed with its joint venture partner, Sichuan Basic Power Company Limited (Basic Power) to acquire Basic Power's 35% interest in the 330MW Jiangbian hydro project in Sichuan Province. Upon completion of the acquisition, CLP will own a 100% interest in the Jiangbian project. Meanwhile, the Dali Yang_er hydro project (49.8MW) in Yunnan Province was commissioned in September 2009.

In line with our Group-wide policy of reducing the carbon intensity of our generation portfolio, we aim to rebalance our project portfolio in the Mainland from one centred on coal-fired generation to one which prioritises low carbon emissions. We intend to consolidate and rationalise our asset ownership and structure for our coal-fired projects, and to continue the pursuit of clean and renewable energy sources in the Mainland, including wind energy, hydro power and nuclear energy.

Electricity Business in India

CLP India's activities continued to centre on three areas: the successful management of our existing power station at GPEC, the growth of our renewable energy investments and the construction of the greenfield coal-fired power station project at Jhajjar. In addition, we sought to explore opportunities in transmission projects.

During the year, the GPEC plant operated at a high level of availability of 92.94%. GPEC delivers all electricity generated to its off-taker, GUVNL. We continued our efforts to secure additional long-term gas supply for GPEC and successfully executed a 5-year contract with Reliance Industries Limited.

CLP is the largest wind power developer in India, with a renewable energy portfolio, in operation and under construction, of 446MW. The first phase of our Samana project (50.4MW) was commissioned in March 2009. Construction of Samana phase II (50.4MW) and Saundatti (82.4MW) is well underway, with commissioning expected this year. The single largest wind project being developed anywhere by the CLP Group, Andhra Lake (113.6MW) in Maharashtra, is also scheduled for completion in 2010.

Progress towards completion, on time and to budget, of our 1,320MW domestic coal-based power plant in Jhajjar District, Haryana was the major focus of management's attention in 2009. It will remain so during the year ahead.

In late 2009 we submitted a bid for two transmission projects in Rajasthan, in joint venture with Gammon India Ltd., a leading Indian engineering contractor. The results of the bid are still awaited.

Electricity Business in Southeast Asia and Taiwan

In 2009, Ho-Ping achieved record operational results in terms of plant availability and generation. Under the PPA with Taipower, Ho-Ping's annual energy tariff is adjusted to reflect Taipower's actual prior year average coal costs. Consequently, Ho-Ping's 2009 energy tariff reflected the surge in coal prices sustained by Taipower during 2008.

As regards Southeast Asia, our major development activities during 2009 were focused on progressing the two coal-fired projects in Vietnam - Vung Ang 2 and Vinh Tan 3, and renewable projects - a 55MW solar project and a 60MW wind project in Thailand, and in supporting our affiliate, EGCO, in its development activities.

Conclusion

We are confident that all of our major business streams, in Hong Kong and elsewhere, present investment opportunities with the potential to create shareholder value. The combination of our long-standing corporate values and capabilities will continue to enable CLP to exploit those opportunities during the years ahead.

For more details, please refer to the full version of "Announcement of Annual Results as from 1 January 2009 to 31 December 2009, Dividend Declaration and Closure of Books"

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Media Contact
Ms Winifred Wong
Group Public Affairs Manager
Tel: (852) 2678 8014
Pager: (852) 7116 3131 A/C 7736

Analysts Contact

Ms Gloria Kwan

Investor Relations Manager

Tel: (852) 2678 8180