26 February 2018

Robust and Diversified Portfolio Delivers Steady Growth

CLP Holdings Limited (CLP) is pleased to announce that the Group continued to perform well in 2017 and our financial results exceeded those of the year before. In 2017, Group operating earnings increased 7.9% to HK$13,307 million from 2016. Total earnings were up 12.1% to HK$14,249 million. These earnings have enabled the Board to approve a fourth interim dividend of HK$1.14 per share for 2017. Together with the three interim dividends already paid, our total dividends this year are HK$2.91 per share, a 3.9% increase from HK$2.80 in the previous year.

“These results reflect the strength of CLP Group that comes from the diversity of our portfolio. The nature of our industry along with the economic fluctuations around the world means that we see volatility from time to time. But our ‘Focus · Delivery · Growth’ strategy has helped us navigate through the energy transition in different markets and achieve a balance across businesses. I am confident that it will continue to do so as we go forward,” said Richard Lancaster, Chief Executive Officer of CLP, at the Group’s 2017 annual results announcement media briefing.

Hong Kong

In 2017, operating earnings from our electricity business increased 2.6% from a year ago to HK$8,863 million. The number of customers served by CLP in 2017 increased year-on-year from approximately 2.52 million to 2.56 million. Local sales of electricity decreased slightly by 0.2% compared with the previous year. Sales to Mainland China increased 11.3%. As a result, total electricity sales in 2017 saw a marginal increase of 0.2%.

Hong Kong experienced a succession of extreme weather events in 2017. The territory was affected by seven typhoons with two particularly strong ones striking in the space of five days. We were able to maintain our highly reliable service despite these challenges. This highlights the resilience of our systems and underlines the need for continuing careful and diligent investment in our infrastructure to maintain and improve our reliability for customers. During the year, we invested HK$8.1 billion to maintain and enhance our supply systems and generation assets to meet customer demand.

In April 2017, a new Scheme of Control (SoC) Agreement was signed with the Government, giving CLP the opportunity to continue to power the growth of Hong Kong. It comes into effect in October 2018 and runs until December 2033. The new Agreement provides certainty for our customers, employees, shareholders, and everyone who uses the electricity infrastructure of Hong Kong. In accordance with the requirements of the new SoC Agreement, we have submitted a Development Plan for 2018-2023 to the Government.

The new SoC Agreement contains important elements designed to support Hong Kong's transition to a low carbon economy through promoting renewable energy development, energy saving and demand management. Details of the Feed-in Tariff programme and Renewable Energy Certificates as well as the new Eco Building Fund and the CLP Community Energy Saving Fund will be made available during 2018.

To support the government's target of generating about half of Hong Kong's electricity from natural gas by 2020, we are building a new 550MW advanced combined-cycle gas turbine at Black Point Power Station which will operate with a world-class efficiency and environmental performance. Construction is progressing well and we are on schedule to put the unit into operation before 2020.

We are also working to develop an offshore LNG import terminal for our city, using a Floating Storage and Regasification Unit (FSRU) located in the southern waters of Hong Kong. Good progress has been made on LNG supply and the FSRU vessel arrangements. We are now finalising the environmental impact assessment study for the project and will soon submit it to the Government.

In a fast-changing world, CLP will capitalise on technological advances to continually improve our operations and to provide better value for our customers. The Smart Energy Programme launched last year is one example where 26,000 residential customers took part in a one-year pilot study to examine how they could better manage their electricity consumption and make real savings on bills with smart meters. We hope to extend these benefits to many more customers in future. As Hong Kong becomes a world-class smart city, it needs a smart utility to support and facilitate the transformation. CLP is ready to take that role.

Mainland China

Operating conditions in Mainland China continued to be challenging in 2017, particularly for coal-fired generation facilities. As a result, operating earnings fell 18.6% to HK$1,238 million.

During 2017, coal prices remained high. This was primarily the result of tight supplies of coal brought about by the country's efforts to clean up the wider coal sector by shutting down smaller, less efficient mines. On-grid electricity prices from coal-fired generation, however, were not adjusted accordingly. This together with overcapacity in the industry affected our thermal projects and the impact was particularly severe at our Fangchenggang Power Station which was also impacted by the restrictions to import coal at certain ports. We responded quickly by increasing the portion of market sales at Fangchenggang from two-fifths in 2016 to 100% in 2017.

While thermal generation has been impacted by China's transition to a lower carbon future, non-carbon emitting generation plays an increasingly important role. CLP's clean energy portfolio was strengthened in 2017 by the completion of the acquisition of a 17% equity interest in Yangjiang Nuclear Power Co., Ltd. in December. The transaction increased our investment in low carbon technologies, strengthened CLP's longstanding relationship with the CGN Group which commenced with our investment in Daya Bay Nuclear Power Station over 30 years ago, and made an immediate contribution to our earnings. During the year, Daya Bay continued to perform well and maintained a good safety performance.

Meanwhile, the performance of our renewable projects was solid, thanks to continuous growth of our wind and solar portfolio.

The energy market in Mainland China is expected to remain challenging in the short term, largely because of overcapacity, keen competition for new projects, and the Government's commitment to transform the country into a low carbon economy. Nevertheless, we remain positive about long-term growth prospects in Mainland China thanks to our diversified portfolio and strong presence in low carbon energy projects.

India

Our operations in India had a solid year as both our thermal and renewable projects performed well. This gave rise to a 38% increase in operating earnings to HK$647 million.

The addition of the Veltoor Solar Farm in Telangana in southern India marked a major achievement for CLP India, taking the size of our commissioned renewable portfolio to 970MW. On the other hand, the operational performance of our wind business was strong. Financially our operational improvement was offset by a loss recorded after we decided to cease construction of the Yermala project because of land issues.

In 2017, Jhajjar's profitability increased sharply by about 170%, driven by a nearly 85% rise in utilisation and improvement in coal supply in terms of both quantity and quality. Meanwhile, the plant's availability reached 78.9% for 2017 despite an extended planned maintenance outage in the first half. We expect it to exceed 80% by March 2018, at which level the entire capacity charges will be recovered. For the Indian fiscal year ended 31 March 2017, the plant not only fully recovered its fixed costs, but also earned an incentive for availability exceeding 85%.

At Paguthan, performance remained steady during the year. Availability remained high at 95.5% as we were able to use imported re-gasified LNG (RLNG). However, utilisation continued to be low because of the high cost of spot RLNG, which discouraged our customer from buying electricity from us.

The power purchase agreement (PPA) signed by Paguthan and Gujarat Urja Vikas Nigam Limited will expire in December 2018. The plant remains one of the country's most efficient power stations and continues to achieve the highest levels of safety and environmental standards. We do not expect the PPA to be extended in its current form beyond 2018. To best utilise this valuable asset, we are exploring various options including the prospect of merchant sales.

We expect India's power sector to grow steadily in the coming years, reflecting stable industry conditions brought about by the country's economic development and new growth potential from the Government's push for electric mobility. India remains a primary focus for CLP and we will continue to explore new growth opportunities along the energy supply chain.

Southeast Asia and Taiwan

In 2017, our operations in Southeast Asia remained steady. However, operating earnings decreased 41.6% to HK$160 million largely because our project in Taiwan, Ho-Ping, was affected by higher coal costs and unplanned outages in the second half of the year. In Thailand, the Lopburi solar project recorded strong results, thanks to high availability and good solar irradiance.

In the meantime, we continued to press ahead with the development of our two coal-fired projects in Vietnam. We target to make final investment decisions regarding Vinh Tan III and Vung Ang II in 2018 so that we can commence construction for one or both projects.

Australia

In 2017, Australia's energy sector was extremely volatile with wholesale prices increasing sharply in the National Electricity Market, impacting millions of households and businesses. At the same time, continued uncertainty about energy and climate policies has eroded confidence of businesses to invest in new, long-term generation assets. Despite the challenging market, EnergyAustralia made strong progress towards restoring value to its business, achieving an increase in operating earnings of 48.1% to HK$2,738 million compared to 2016.

Our Customer segment benefitted from the hard work we put in over recent years which puts our customers first and successful initiatives to lower costs. As a result, EnergyAustralia maintained overall customer account numbers last year and achieved a churn rate below the market average. To help ease pressure on households, EnergyAustralia introduced a new product, *Secure Saver*, that gives customers the option of fixing their electricity and gas tariffs for two years. We also committed an additional A$10 million to our hardship programme, boosting our ongoing support for our most vulnerable customers.

In order to ensure supply reliability, as Australia transitions to a cleaner energy future, we worked hard to optimise our generating assets during the year. As planned, Yallourn Power Station in Victoria produced less energy than the prior year due to scheduled maintenance and other repair works. Mount Piper Power Station in New South Wales (NSW) also produced less energy as coal was rationed due to uncertainty about long-term supply from the Springvale mine. In October 2017, however, the NSW Government legislated to confirm planning consent for the Springvale mine. This enabled the signing of a long-term coal contract for Mount Piper.

Our "NextGen" division realised a number of significant achievements in 2017. The Redback Smart Hybrid System was commercially launched in September 2017. In October 2017, EnergyAustralia announced plans to deliver up to 50MW of demand response reserve capacity as part of a three-year pilot programme by the Australian Renewable Energy Agency and the Australian Energy Market Operator.

Energy policy was subject to intense public and political discussion in Australia in 2017, focused both on prices and reliability of supply. We are studying battery, pumped storage and demand response as part of a portfolio to help address the current energy security issue. More broadly, EnergyAustralia believes that a stable and national approach to policy remains the best prospect for a lasting solution. We are optimistic that the proposed National Energy Guarantee can provide a way forward.

Operationally, we expect wholesale market conditions to remain tight in 2018. Wholesale prices are trading at high levels in the short term before easing in 2019. Meanwhile, we see no easing in the extremely competitive retail market. EnergyAustralia will help ease pressure from higher wholesale prices by running our generation assets efficiently, supporting vulnerable customers and helping households and businesses to better manage their energy use.

Safety

At CLP, we take safety to heart. The two fatal accidents in our Hong Kong operation last year resulting in the death of four workers of our contractors were a tragic reminder that we must be forever vigilant in our efforts to protect the safety of our staff, contractors and customers. In 2017, under the supervision of the Board, we carried out a fundamental review of our health and safety practices. As a result, we significantly strengthened the focus of our safety procedures on the reduction of serious incidents and introduced action plans to improve standards in this area. We will closely monitor the implementation of these plans with a determination to do as much as we possibly can to prevent a recurrence of such tragic accidents.

For more details, please refer to the full version of "Announcement of Annual Results from 1 January 2017 to 31 December 2017, Dividend Declaration and Closure of Books".

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