Interim Results Reflect Solid Fundamentals amid External Challenges

CLP Holdings Limited (CLP) announced today its results for the first six months of 2019, which reflect both the impact of the decisions we are taking to support our desire to deliver secure, affordable and sustainable energy for the Asia-Pacific region as well as the influence of significant external challenges.

The Group’s operating earnings were HK$5,474 million, a decrease of 30.6% compared with the first half of 2018. This was due to a lower permitted rate of return in Hong Kong, the partial sale of our operations in India and very challenging conditions in Australia in the first half of 2019 particularly relative to the unusually strong results from EnergyAustralia in the first half of 2018. Total earnings decreased by HK$8,343 million to a loss of HK$907 million after an impairment of goodwill attributable to EnergyAustralia’s retail business.

Notwithstanding this, the Board is confident in the Group’s long-term, diversified opportunities, alongside the strength of our balance sheet, and has increased the level of our first and second interim dividends from HK$0.61 per share in 2018 to HK$0.63 per share this year.

“The first half of 2019 has been challenging for CLP. Our results underscore the changes that the business has gone through which in the long term will deliver greater stability and growth,” said Richard Lancaster, Chief Executive Officer of CLP, at the Group’s 2019 interim results announcement media briefing. “We continue our effort to transform into a Utility of the Future, progressively reducing carbon from our portfolio and putting customers and communities at the heart of everything we do. It is important to stress that the fundamentals of CLP remain strong and we have the capabilities to deliver investment plans, maintain our dividend practice and create long-term value for our shareholders and stakeholders.”

Hong Kong

Sales of electricity in Hong Kong in the first half of 2019 were 15,916GWh, 0.5% higher than the same period in 2018, driven by various major infrastructure developments in Hong Kong. No sales to Mainland China were recorded during the period as the Shekou electricity supply agreement expired in June 2018.

We have great confidence in our home market for the next five years and beyond. This is thanks to the stability of the regulatory environment underpinned by the new Scheme of Control (SoC) Agreement running until 2033, and our Development Plan covering 2018 to 2023 that sees us investing HK$52.9 billion to secure future energy supplies for Hong Kong in support of the Government’s decarbonisation policies.

We continue to make progress on the construction of the new 550MW Combined Cycle Gas Turbine (CCGT) unit at Black Point Power Station, which is due to go into operation by early 2020.
We have also embarked on the development of a second new CCGT unit on an adjacent site. The unit is targeted for completion in 2023.

In addition, we made significant progress with our offshore LNG terminal project, commencing the Front-End Engineering Design process for the offshore jetty facility and the subsea pipelines. We have entered into agreements for chartering a Floating Storage and Regasification Unit vessel and for a long-term LNG supply. Construction is due for completion before the end of 2021.

As part of the new SoC Agreement, CLP has introduced new initiatives to promote the development of renewable energy and energy efficiency. For example, our Feed-in Tariff scheme, encouraging customers to install small scale renewable generation systems on their premises, has received over 3,900 applications to the end of June 2019, with around 80% of the projects representing a total capacity of around 57MW already approved or connected to our grid.

We continued the rollout of smart meters with a target of providing smart meters for all our 2.6 million customers by 2025. By the end of June, 196,000 smart meters had already been installed and connected with priority installations at remote villages which are more prone to typhoon disruptions, in order to improve our supply reliability.

In the second half of the year, we will continue to focus on implementing initiatives under the SoC Agreement and our five-year Development Plan. It has been our long-standing commitment to address climate change by changing our fuel mix to reduce carbon emissions, while maintaining a highly reliable electricity supply. With the help of our CCGT units and other new projects, we are on track to play an important role in support of the Government’s decarbonisation objectives. We will also focus on developing innovative, technology-enabled services. These efforts will be significant factors in driving Hong Kong’s transition to a smarter, greener, low-carbon future.

**Mainland China**

Our zero-carbon portfolio was a key driver of CLP’s solid performance in Mainland China in the first half of 2019. Our nuclear and renewable energy businesses continued to account for most of our earnings in the country. This also means that the earnings from our portfolio in China will likely become more stable as nuclear is subject to less dispatch and cost volatilities compared with our coal or renewable energy projects.

Yangjiang Nuclear Power Station delivered higher contributions as output increased following the commissioning of the fifth generating unit in July 2018. The sixth and final unit was commissioned in July this year, with the entire project completed within budget. Daya Bay Nuclear Power Station continued to perform safely and reliably.

Our solar energy portfolio benefitted from the addition of new projects such as the Lingyuan plant in Liaoning Province, commissioned in July 2018, and our newly-acquired plant in Meizhou, Guangdong Province. Our wind assets reported a stable performance. During the first half, we commenced commercial operations of CLP Laizhou II in Shandong Province, and began construction of Laiwu III in the same province. Our hydro portfolio benefitted from the strong generation performance of Huaiji in Guangdong due to plentiful rainfall.

The utilisation level at Fangchenggang Power Station improved from the economic growth in the Guangxi Zhuang Autonomous Region and easing competition from hydro power generation due to low rainfall in the first half. In the meantime, the plant continued its evolution into an integrated energy provider by also supplying steam and carbon dioxide to a nearby factory, thereby securing more generation hours.
We believe the Central Government’s efforts to shift the country’s energy mix in favour of cleaner generation will lead to growth in this sector over the long term. CLP will therefore continue to look for opportunities to expand our low-carbon portfolio. The Outline Development Plan for the Greater Bay Area released by the Central Government in February makes the development of smart cities in the region a key focus for city-level administrations. CLP will work closely with our partners to pursue opportunities in this important emerging sector.

**India**

CLP India benefitted from the good operational performance of our renewable energy assets and the steady performance of the Jhajjar coal-fired plant in the first half of the year. A strategic partnership with Caisse de dépôt et placement du Québec (CDPQ) has strengthened our ability to capture new investment opportunities across the value chain in India’s power sector. In July, we entered into agreements for the acquisition of three power transmission assets, expanding our geographical reach in India and broadening our portfolio into a new segment of the country’s electricity value chain. These agreements remain subject to certain regulatory approvals.

The Veltoor solar plant continued to perform well following technology upgrades and operational enhancements. Operations at the Gale and Tornado solar plants stabilised after rectifying technical issues that had earlier hampered output, and the performance of both plants fulfilled expectations. The Veltoor and Gale plants became wholly-owned assets of CLP India after the acquisitions of the equity interests previously held by Suzlon Energy Limited in March.

Improved operational efficiencies and higher wind resources saw CLP India’s wind portfolio increase output.

Jhajjar reported a higher level of commercial availability compared with the first half of 2018 due to an increased coal supply and a better performance of the plant.

Following the expiry of the previous power purchase agreement for Paguthan in December 2018, we have continued to explore new commercial avenues for the plant including short-term sales on the Indian Energy Exchange. However, the plant did not undertake any significant commercial generation in the first half.

CLP India will continue to maintain and strengthen the operational excellence of our existing assets in the second half of 2019. Meanwhile, our alliance with CDPQ has brought long-term strategic backing and additional resources to support our continuing growth. We are actively exploring further potential opportunities for acquisitions and investments in renewable energy and transmission, as the Government continues to implement energy industry reforms.

**Southeast Asia and Taiwan**

Both the Ho-Ping coal-fired power station in Taiwan and the Lopburi solar plant in Thailand reported stable operations in the first half of 2019. In Vietnam, we continued discussions with our partners and the Government over the Vung Ang II and Vinh Tan III legacy coal-fired projects.

**Australia**

The six months ended 30 June 2019 were challenging for EnergyAustralia, reflected by operating earnings before one-off items of HK$824 million, compared with an exceptional first half in 2018 of HK$2,257 million. This performance reflects the impact of operational issues experienced at our generation assets and the continuing competition in the retail business. In addition, a non-cash
change to the fair value of energy derivatives used for economic hedges that arose from an increase in the price of forward energy contracts further affected the results.

The retail market in Australia remains intensely competitive. While our retail business reduced customer churn in line with the overall market, our account numbers decreased by around 50,300, or about 2%, in the first half. We nevertheless made good progress with ongoing programmes to improve customer service and support the modernisation of Australia’s energy system.

Our work throughout the first half meant that on 1 July 2019 EnergyAustralia was well prepared to implement new government safety-net prices for its customers, the most significant regulatory change to energy retailing for several years. The regulations, known as the Default Market Offer and the Victorian Default Offer, effectively cap retail prices at new, lower levels. To comply, EnergyAustralia has transferred about 173,000 customers – around 10% of our electricity retail customer base – to the new tariffs. At the same time, we launched a new product suite comprising simple, lower-cost energy plans to existing and new customers.

In our generation business, electricity production from EnergyAustralia's power plants was lower due to coal supply issues affecting Mount Piper Power Station in New South Wales (NSW) and maintenance requirements at Yallourn Power Station in Victoria. This resulted in lower contributions to the energy segment. In addition to planned outages, operations at Yallourn were restricted as a fatal incident in late 2018 was investigated and new measures were introduced to enhance safety.

Meanwhile, we continued to implement and assess projects to provide additional capacity and reliability for customers and the national electricity grid. The Hallett Repower project is in progress in South Australia adding 30MW to our existing gas-fired generation capacity. In early July, we announced a 60MW turbine upgrade at Mount Piper. Potential projects under assessment include pumped-hydro in South Australia and Queensland and flexible gas generation in NSW.

The anticipated reduction in future earnings related to our retail business, announced in June, led EnergyAustralia to record a one-off, non-cash impairment of goodwill of HK$6,381 million as part of the Group’s interim results. This impacts EnergyAustralia’s earnings in the first half.

In an intensely competitive retail market, customer service remains our priority. Our new retail approach is aimed at better serving and retaining customers as the market evolves under the new default price safety nets. Heightened competitive activity, and the changes to our product portfolio, are expected to have an ongoing negative impact on earnings.

In the wholesale market, the recent reduction in baseload capacity and the ongoing addition of intermittent renewable energy generation are likely to result in continued volatility and elevated prices. For our existing generation assets, we will focus on enhancing their availability to safeguard the reliability of our supply. We expect operations at Yallourn to return to normal during the second half of 2019 as we complete operational and safety improvements. At Mount Piper, EnergyAustralia is working closely with the NSW Government, as well as the mine owner Centennial, to find alternative sources of coal.

To support Australia’s transition to a cleaner and more modern energy system and to better manage volatility in the wholesale electricity market, we will continue to explore innovative solutions and evaluate new projects that can deliver flexible, fast-response generation capacity in this high-price and volatile market environment.
Innovation

As part of our commitment to transform into a Utility of the Future, we continued to invest in our digitalisation capabilities and strengthen partnerships with companies around the world, speeding up the innovation of smarter, more customer-centric products and services and engaging with new technologies to enhance our operations.

In the first half of 2019, we introduced Smart Energy Connect, an energy app store allowing users to access the latest energy management applications developed by CLP and our partners. In June, CLP hosted the Free Electrons global energy start-up accelerator programme in Hong Kong. Free Electrons provides a platform for utility companies to go into partnership with start-up companies and fast-track the development of new energy technologies and solutions. During the period, we also set up a joint venture with Other Sources Energy Group, which has a proven investment track record in clean energy technologies in Israel, and made an additional investment of approximately HK$100 million (US$12.7 million) in California-based energy management software developer AutoGrid Systems, Inc.

Conclusion

At this exciting, dynamic and challenging time for the energy industry, we are as committed as ever to growing shareholder value, and delivering the reliable, affordable and environmentally sustainable energy to the communities we are proud to serve.

For more details, please refer to the full version of “Announcement of Interim Results as from 1 January 2019 to 30 June 2019, Dividend Declaration and Closure of Books”.

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