CLP Holdings

Acquisition of Further 30% Interest in CAPCO and Remaining 51% Interest in PSDC

19 November 2013
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Background

On 15 March 2012, CLP confirmed that it was in discussions, in partnership with China Southern Power Grid (CSG), to acquire ExxonMobil’s (EM) shareholdings in CAPCO and PSDC

- CAPCO owns three generating stations in Hong Kong
- PSDC has the rights to 600MW of pumped storage facilities in Guangdong

Long running negotiations between the parties have now reached agreement and they have signed contracts so that

- CLP and CSG will together acquire EM’s 60% equity interest in CAPCO
- CLP will acquire EM’s 51% equity interest in PSDC
Strategic Rationale

- CLP will become a majority shareholder in CAPCO and own all the shares in PSDC, enabling it to manage better the coordination of its Hong Kong generation business with its transmission and distribution business.

- CLP has developed a number of commercial arrangements with CSG over the years and anticipates developing further what will become a strategic relationship with CSG.

- CLP has been providing reliable electricity to fuel Hong Kong's growth for more than 100 years and the acquisitions reaffirm its commitment to Hong Kong.
New Shareholding Structure

**Current Shareholding Structure**

- CLP Holdings 100%
  - CLP Power 100%
    - Exxon 60%
    - CAPCO 40%
    - PSDC 49%

**Shareholding Structure Post Completion**

- CLP Holdings 100%
  - CLP Power 100%
    - PSDC 51%
    - CSG 30%
  - CAPCO 70%
Purchase Consideration

- **Sale and Purchase Agreement (SPA) Consideration**
  - CAPCO: HK$12 billion for 30% stake
  - PSDC: HK$2 billion

- **Payment on Completion to be adjusted by**
  - Distributions to EM from 1 July 2013 to Completion Date
  - Contributions made by EM from 1 July 2013 to Completion Date

- **SPA Consideration (prior to consideration adjustments) implies**
  - P/E (2012): 13.3 x
  - EV/EBITDA (2012): 7.9 x
    - Based on cash EBITDA (after adjusting for current lease accounting basis)
Financing Considerations

Transaction Financing

- Existing internal resources and bank facilities (including the committed HSBC Facility)
  - HSBC Facility: HK$10 billion in total, 50% with maturity of 1 year from Completion and 50% with maturity of 2 years from Completion

Longer Term Financing

- We are targeting Completion to occur mid-2014
- Will review funding options including loans, bonds, hybrid securities and equity
- The timing and nature of permanent financing will be driven by several factors including the interests of shareholders, prevailing market conditions and the maintenance of a strong balance sheet
Impact on Accounting Treatment

- Joint Venture to Subsidiary
  - Equity accounting to consolidation
Next Steps

- **Conditions Precedent**
  - CLP to obtain shareholder approval
  - CSG to obtain approval of relevant mainland authorities

- Completion expected mid 2014
Appendix
<table>
<thead>
<tr>
<th>Station</th>
<th>Year Range</th>
<th>Power Capacity</th>
<th>Fuel Type</th>
<th>Additional Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Station B</td>
<td>1986-90</td>
<td>4 x 677MW</td>
<td>Coal fired units (2 units can burn gas)</td>
<td></td>
</tr>
<tr>
<td>Station A</td>
<td>1982-85</td>
<td>4 x 350MW</td>
<td>Coal fired units</td>
<td></td>
</tr>
<tr>
<td>Black Point Power Station</td>
<td>1996-2006</td>
<td>8 x 312.5 MW</td>
<td>Gas fired units</td>
<td></td>
</tr>
<tr>
<td>Penny’s Bay Power Station</td>
<td>1992</td>
<td>3 x 100 MW</td>
<td>Diesel oil fired units</td>
<td>For peak-lobbing and system operations support</td>
</tr>
</tbody>
</table>

- **Total Generation Capacity:** 6,908MW
Interconnection with Guangdong Power Grid

Gas Supply
from WEPII
Pipeline

Gas Supply
from Yacheng
(Hainan)

Black Point
Power Station

Castle Peak
Power Station

Penny's Bay
Power Station

Daya Bay Nuclear
Power Station

To Guangzhou Pumped
Storage Power Station at
Conghua

Shenzhen

Tseung Kwan O

Tsz Wan Shan

Tseung Kwan O

La Chi Kok

Yau Ma Tei

Tai Wan

Tai Po

Yuen Long

Lei Muk Shue
CAPCO – Environmental Improvement

- Electrostatic Precipitators at Castle Peak
- Low NOx Burners at Castle Peak
- Nuclear at Daya Bay
- Natural Gas at Black Point
- Secured 5-year Supply of Ultra Low Sulphur Coal
- Emissions Control Project at Castle Peak

Total Emissions Reduction 1990 – 2012

- NO\textsubscript{X} 81%
- SO\textsubscript{2} 86%
- RSP 82%

Total Electricity Demand 81%
PSDC

- PSDC is a company incorporated in Hong Kong with limited liability
- PSDC owns the right to use 600MW of capacity at the Guangzhou Pumped Storage Power Station in Guangdong Province in China
- The right runs for 40 years from 1994 to 2034
Accounting Treatment for CAPCO

Shareholding structure

Classification

Accounting treatment

Accounting impact

Current

70% owned subsidiary

<table>
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<tr>
<th>Shareholding structure</th>
<th>CLP</th>
<th>ExxonMobil</th>
<th>Current</th>
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<tr>
<td></td>
<td>40%</td>
<td>60%</td>
<td></td>
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Classification

Jointly controlled entity

Equity accounting

Lease accounting on CAPCO’s generation assets

Subsidiary

Consolidation

General

Cease lease accounting
Recognise loss on settlement of pre-existing lease (effective cancellation of the lease arrangement)

Balance Sheet
Remeasure 40% previously held interest (PHI) to fair value, difference from carrying value recognised as gain
Goodwill = Consideration + Fair value of 40% PHI + 30% NCI – Fair value of 100% identifiable net assets, subject to annual impairment test

Income Statement
Line by line consolidation to P/L
Acquisition-related costs should be expensed off
Recurring incremental depreciation arising from fair value remeasurement of acquired assets

Become a non-controlling interest (NCI)
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<th>Current</th>
<th>Wholly-owned subsidiary</th>
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<td>CLP 49%</td>
<td>ExxonMobil 51%</td>
<td>CLP 100%</td>
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<td>Classification</td>
<td>Jointly controlled entity</td>
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<td>Accounting treatment</td>
<td>Equity accounting</td>
<td>Consolidation</td>
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**Accounting impact**

- **Capacity right is accounted for as an intangible asset and amortised over the term of the service contract**
- **Balance Sheet**
  - Remeasure 49% previously held interest (PHI) to fair value, difference from carrying value recognised as gain
  - No goodwill is recognised since the capacity right will expire in 2034
  - Fair value adjustment to capacity right (net of deferred taxation) = Consideration + Fair value of 49% PHI − Fair value of other identifiable net assets acquired
- **Income Statement**
  - Line by line consolidation to P/L
  - Acquisition-related costs should be expensed off
  - Recurring incremental amortisation on capacity right due to fair value remeasurement