2 August 2021

CLP Demonstrates Operational Resilience and Progress in Decarbonisation in 2021 First Half

CLP Holdings Limited (CLP) announced today the Group's operating earnings for the first half of 2021 were HK$5,698 million, a decrease of 7.0% from the same period of 2020. Total earnings decreased 23.2% to HK$4,615 million after one-off charges were booked in its Australian business to settle a longstanding litigation and to provision for the cost of ensuring safe operations in the Yallourn mine following the impact of the recent extreme rainfall.

The Board is confident in the Group's ability to remain resilient through the pandemic and continue with its strategy of decarbonisation and digitalisation moving forward. With this in mind the first and second interim dividends have been maintained at HK$0.63 per share, unchanged from the same periods in 2020.

"As we emerge from one of the most challenging periods of our time, I am pleased to report significant progress in decarbonisation, and operational resilience was achieved during the first half of this year. We have maintained COVID-19 support for communities, customers and staff and we are grateful to our colleagues for their ongoing efforts in difficult circumstances. Across our business we have seen exciting developments that underscore CLP's commitment in delivering the energy transition. With our pathway towards a zero-carbon future solidifying further, we are well placed for the next phase of transformation that requires greater agility and effort than anything that has come before," said Richard Lancaster, Chief Executive Officer of CLP.

Hong Kong

CLP continued to provide a highly reliable electricity supply in Hong Kong. Electricity sales rose 4.4% in the first half of the year from the same period in 2020. Residential consumption saw growth with a cold spell early in the year and warmer weather in the second quarter pushing up demand. The rollout of the Government's vaccination programme and the gradual easing of social distancing measures allowed workers and students to return to offices and schools. Economic activity therefore increased, triggering higher electricity sales across other sectors compared with the same period last year.

CLP is engaged in discussions with the Hong Kong Government to contribute to a preliminary decarbonisation roadmap in support of the city's target of becoming carbon neutral by 2050. The commissioning of a new combined-cycle gas turbine (CCGT) unit at Black Point Power Station in 2020 has enabled the increased use of cleaner natural gas in the fuel mix and resulted in a significant reduction in the carbon intensity of CLP's electricity supply. Construction of a second CCGT unit at Black Point continued to make good progress despite ongoing challenges posed by the pandemic, with the unit expected to go into service in 2023. Elsewhere, the Hong Kong offshore LNG terminal project is under construction with marine installation and laying of the subsea gas pipelines in progress and completion is expected in 2022. CLP is conducting pre-development studies – including preliminary site investigations and technical evaluations – into the feasibility of an offshore wind farm in Hong Kong as the latest lower cost and larger capacity wind turbine technologies have made the project more viable.

The Renewable Energy Feed-in Tariff scheme continued to receive positive customer response, with more than 15,900 applications received by the end of June. Of those, around 90% – representing a combined capacity of around 217MW – were approved or connected to the grid. Demand for Renewable Energy Certificates benefitted from large, multi-year purchases by various companies with total committed sales increasing to around 35GWh during the period.

CLP recognises the importance of enabling customers to manage their electricity consumption and increase their energy efficiency as part of a holistic approach to decarbonisation. By the end of June, over one million smart meters were connected, giving more customers access to detailed consumption data and allowing them to participate in demand response programmes.

To support people in need and encourage consumer spending amid the pandemic, CLP introduced a HK$160 million package of initiatives for 2021 from the CLP Community Energy Saving Fund.

CLP remains focused on decarbonising its electricity business and using digital technologies to deliver smarter, greener services to customers. In the longer term, CLP is exploring opportunities in the development of zero-carbon hydrogen technologies and supply chains, as part of its continued efforts to support Hong Kong's 2050 carbon neutrality target.

Mainland China

CLP's non-carbon energy portfolio in Mainland China delivered a stable performance during the first half of the year as the economy continued to recover from the impact of COVID-19. However, high coal prices affected the earnings of thermal power assets.

Daya Bay Nuclear Power Station and Yangjiang Nuclear Power Station continued to perform reliably. Generation at Yangjiang was higher than the same period a year ago, while a planned refuelling outage programme in March and April impacted output from Daya Bay.

Wind energy generation increased moderately with better resources and the addition of the Laiwu III Wind Farm, commissioned in 2020. Construction began on the Qian'an III wind farm, which will be CLP's first grid-parity project in Mainland China. A 5MW battery storage system is being installed as part of the project.

Solar energy generation was higher than last year, thanks to extended periods of good solar irradiance. Meanwhile, decreased water flow at projects in Sichuan and Guangdong provinces diminished the output from CLP's hydro portfolio.

As of 30 June 2021, delayed national subsidy payments for renewable energy projects amounted to HK$2,189 million for CLP's wind and solar energy subsidiaries in Mainland China, compared to HK$1,774 million at the end of 2020. Partial payment of the subsidies is expected in the second half of the year.

Fangchenggang Power Station increased generation in response to stronger electricity demand and reduced competition from hydro plants. However, profitability of the plant was under pressure because of higher coal prices and softer electricity sale prices. Coal prices may soften slightly in the second half of the year but are expected to remain high, which will continue to impact the profitability of CLP's coal-fired assets.

The Chinese Government set out in its 14th Five-Year Plan new targets for reducing carbon intensity and increasing energy efficiency. With the cost of renewable energy projects falling, CLP will continue to explore further investment opportunities for grid-parity projects in line with the Government's target to reach peak carbon emissions by 2030 and carbon neutrality by 2060. The continuing decarbonisation of China's economy is opening up opportunities in new energy infrastructure and smart energy services. CLP is focused on meeting growing demand for diversified energy solutions, including centralised cooling systems, energy solutions for data centres, and energy management systems for buildings, particularly in the Greater Bay Area.

Australia

EnergyAustralia took significant steps to decarbonise its business and support the country's transition to clean, reliable, and affordable energy. In March, EnergyAustralia entered into an agreement with the State Government of Victoria in relation to the advanced retirement of Yallourn Power Station in mid-2028, four years before the end of its technical life. The retirement of Yallourn will reduce EnergyAustralia's carbon dioxide emissions by more than 60%. To ensure the plant's orderly closure, EnergyAustralia is providing a comprehensive package to support the workforce. EnergyAustralia also announced the construction of a 350MW utility-scale battery adjacent to the Jeeralang power station in Victoria by the end of 2026. The new facility will be larger than any battery operating in the world today, enabling more renewable energy to enter the market.

An agreement was reached with the Government of New South Wales in May for EnergyAustralia to build a new power plant of around 300MW on its Tallawarra site, in time to begin operations for the 2023-24 Australian summer. Tallawarra B will be the country's first net-zero-emissions power station using a blend of green hydrogen and natural gas, with direct carbon emissions from the plant offset over the course of its operational life.

Earnings in EnergyAustralia's Energy business were affected by lower wholesale electricity prices during most of the first half. In addition, earnings were adversely affected by accelerated depreciation costs resulting from the advanced retirement plans for Yallourn, and the re-contracting of gas purchasing arrangements at higher prices reflecting international market rates. Margins are expected to come under increased pressure as hedging contracts signed at higher prices in previous periods gradually mature.

Generation from EnergyAustralia’s power plants increased compared with the same period in 2020 as output from Mount Piper Power Station rose. Output was lower at Yallourn, where mine production was suspended as a precaution following extreme rain and regional flooding in June. The power plant was therefore operating below capacity temporarily though normal operations have since resumed. The exceptionally heavy rainfall resulted in heightened water flows through the Morwell River Diversion which runs through the Yallourn mine site. While there was no flooding in the mine, cracks were discovered in the diversion’s structures. A provision was made for examination of the extent of the damage to the diversion along with potential rectification options.

Both Mount Piper and Yallourn are undergoing major planned maintenance programmes to enhance their reliability and performance, and this is expected to limit generation in the second half of 2021.

Earnings in the Customer business improved in the first half of the year driven by lower bad debt expense, a favourable tariff adjustment for existing customers and a reduction in solar feed-in tariffs. However intense competition resulted in lower margins on new customer accounts. In the first six months, the number of customer accounts fell by less than 1%, an improvement compared to a year earlier.

In March, a settlement was reached with Lochard Energy and related entities regarding the dispute on the disposal of the Iona Gas Plant.

The short-term outlook remains for low wholesale prices, intense competition and pressure on retail margins. EnergyAustralia will continue to focus on the orderly retirement of Yallourn and moving forward with its energy transition projects, including Tallawarra B and the battery project near Jeeralang. It is also assessing the potential of a pumped hydro energy storage facility at its Lake Lyell dam that supplies water to Mount Piper Power Station. In addition, EnergyAustralia is exploring potential synergies from working with the CLP Group on technologies including hydrogen and microgrids, further strengthening its capability to help build a cleaner, modern energy future for Australia underpinned by renewable energy.

India

CLP India has focused on efforts to protect the health and safety of employees and maintain a reliable service for customers as COVID-19 cases rose sharply amid a second wave of the pandemic. CLP and CLP India also lent their support to relief efforts to local communities, helping provide oxygen machines and critical medical supplies to areas badly hit by the pandemic.

In January and February, new records were set for national peak electricity demand as a broad-based recovery in electricity demand occurred across the country. CLP India increased its solar energy output with a portfolio expanded by the 2020 acquisition of two plants, and continued to ensure the strong operational performance of its assets.

Wind energy generation was higher than the first half of 2020. At CLP India's wind power project in Sidhpur, Gujarat, work was held up by localised pandemic lockdowns, thus affecting the original target to commission the project in early 2022. The Government granted a 2.5-month extension to the commissioning schedules of renewable energy projects under development and CLP India will continue to expedite construction of the project, while evaluating the need to request further timeline flexibility from the Government.

CLP India's outstanding receivables from local distribution companies related to the purchase of renewable energy were HK$844 million at the end of June, compared to HK$771 million six months earlier.

In the third quarter, CLP India expects to complete the acquisition of Kohima Mariani Transmission Limited, an interstate transmission asset, subject to final agreement and fulfilment of agreed conditions precedent. Satpura Transco Private Limited, the transmission asset acquired by CLP India in 2019, meanwhile continued to report near-full availability.

Jhajjar Power Station once again performed solidly. Its operations benefitted from a major maintenance programme completed in the first quarter, the biggest since the plant began operations in 2012. Meanwhile, CLP India continued to explore alternative uses for the Paguthan gas-fired plant, including its possible sale.

With the support of its two shareholders CLP and Caisse de dépôt et placement du Québec, CLP India is exploring further opportunities for investments in renewable energy and transmission, and supporting continuing improvements to India's rapidly developing energy supply chain.

Southeast Asia and Taiwan

In the first half, Ho-Ping Power Station continued its reliable operations, which were unaffected by supply outages that impacted large parts of Taiwan in May. In Thailand, operations of the Lopburi Solar Farm remained stable. CLP will continue to explore potential investment opportunities in the renewable energy sector in Southeast Asia and Taiwan.

Conclusion

The 26th United Nations Climate Change Conference, COP26, being held later in 2021, will highlight the critical importance of accelerating global decarbonisation efforts and aligning national policies towards that objective. CLP is in the process of reviewing the pace of its transition and plans to significantly strengthen its climate targets ahead of COP26.

To realise a carbon-neutral society by 2050, the entire system needs to be upgraded or replaced by clean energy in less than 30 years. As new digital technologies and business models transform the energy market, CLP will also need to strengthen its capability to manage an increasingly complex system and become more resilient against such risks as growing cybersecurity threats.

This year marks CLP's 120th anniversary and it is not the first time in this long heritage that the business has transformed and transitioned. CLP is set well for this next phase of faster-paced transformation as it brings to life the true meaning of Utility of the Future.

For more details, please refer to the following documents:

- *Announcement of Interim Results as from 1 January 2021 to 30 June 2021, Dividend Declaration and Closure of Books*
- *CLP Holdings 2021 Interim Results Highlights*

- Ends -

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