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**Announcement of Annual Results
from 1 January 2013 to 31 December 2013,
Dividend Declaration and Closure of Books**

Financial Highlights

- Group operating earnings remained stable at HK\$9,307 million, whilst total earnings after one-off items decreased by 27.1% to HK\$6,060 million.
- Operating earnings from Hong Kong, the Chinese mainland and India increased but offset by a decline from Australia.
- Consolidated revenue remained stable at HK\$104,530 million; Hong Kong electricity revenue grew slightly at HK\$33,840 million; revenue from Australia decreased by 2.8% to HK\$64,976 million.
- Fourth interim dividend of HK\$0.98 per share; including the first three interim dividends paid, total dividends for 2013 were HK\$2.57 per share (same as 2012).

CHAIRMAN'S STATEMENT

2013 was a year of great significance for the CLP Group, marked by the completion of a number of regulatory issues in Hong Kong, a mixed performance by our overseas investments and, perhaps most significant of all, our impending acquisition of a controlling interest in Castle Peak Power Company Limited (CAPCO), which reaffirms our commitment to Hong Kong. This decision brings to an amicable end the remarkable 50-year partnership with ExxonMobil Corporation (ExxonMobil) and lays the foundation to a new strategic relationship of exciting potential with China Southern Power Grid Co., Limited (CSG).

In this Chairman's Statement, I wish to focus on CLP Power Hong Kong which is our core business. I also plan to dwell on the key aspects of the CAPCO transaction because it is such a landmark decision in CLP's history and it is fitting to acknowledge our long and rewarding relationship with ExxonMobil.

Before doing so, I would like to report the Company's results in 2013. The Group's operating earnings remained steady at HK\$9,307 million, compared with HK\$9,406 million in 2012. Group total earnings, which include non-recurring items, were HK\$6,060 million, 27.1% lower than that in the previous year.

In 2013, our business in Hong Kong continued to perform well and our Mainland business achieved a record profit. In India, while we continue to face challenges, the coal supply situation that had weighed heavily on our operation improved significantly in the second half of 2013. The disappointing results from Australia continue to reflect the unprecedented structural changes that the Australia energy market is undergoing, evidenced by an oversupply of generating capacity, depressed wholesale prices and a pronounced decline in electricity demand. These difficult market conditions are likely to continue for some time. We expect that there will ultimately be a range of industry supply-side responses to these conditions. Meanwhile, we are rigorously assessing our own internal costs and moving to optimise the operation of our power stations in line with declining demand. We will continue to monitor the market closely and to advocate for practical and supportive government policies in relation to carbon taxes, renewable energy targets and gas supply that could also affect the value of our business.

The decline in total earnings was due to the non-cash impairment and other charges of HK\$3,696 million in relation to a number of our assets in Australia, India and the Chinese mainland. The impairment in Australia relates to the decline in the value of our generation portfolio, where continuing oversupply and the outlook for increasing gas prices have had a particularly negative impact relative to the Yallourn Power Station and our portfolio of gas-fired assets.

Notwithstanding the encouraging improvement in our operation in India, we took a HK\$293 million provision for our gas-fired Paguthan Power Station to reflect changes to the Power Purchase Agreement (PPA) and our revised view of the residual value of the plant, in light of the industry-wide long-term nature of the severe shortage of gas. Additionally, we made a provision of HK\$297 million to CSEC Guohua and Shenmu joint ventures, reflecting their recoverable amounts and recognised a loss of HK\$75 million from the divestment of Boxing Biomass Power Station in the Chinese mainland.

Taking a Long-Term View

While these impairments are non-cash accounting charges, I recognise that the magnitude of these adjustments is disappointing. As I pointed out in the Interim Report, the nature of the power sector necessitates a long-term view – given the scale and lifespan of our investments and the array of stakeholders impacted by our operations, there is no quick-fix solution to the challenges that have weighed on the Group over the past year. However, there is no doubt that by focussing on those areas of the business where we can bring about further improved performance and enhanced results, we can continue to grow the Company in a way that will reward shareholders.

The Board and I have instructed Senior Management to make it their top priority in 2014 to address these challenges. In order to give shareholders a clearer picture of our Company's strategy as well as the prospects for further growth in the years ahead, I have asked our new Chief Executive Officer (CEO) Richard Lancaster in his Strategic Review to describe the various factors which impacted our operations and our plans to improve the fundamentals of the business.

Providing Reliable Clean Energy

Before moving on to our CAPCO transaction, I would like to touch on some key Hong Kong issues. In 2013, we completed the interim review of the Scheme of Control (SoC) Agreement and obtained approval from the Government for a new five-year development plan which takes our business through to 2018. We also achieved a record high for supply reliability during the year. In 2013, a typical CLP customer experienced well less than 2 minutes of unplanned interruptions in the year. To put that in context, a typical customer in New York, Sydney and London experienced unplanned power interruptions, per year, of 16-35 minutes over the period of 2010-2012.

In the first quarter of 2014 the Government is expected to launch a public consultation on energy policy and fuel mix to be used for electricity generation to meet its climate change challenge. Energy decisions should involve the community and the Government. Hong Kong has been enjoying a world-class supply reliability that tends to be taken for granted and while environmental performance is being improved and welcomed, the higher cost of cleaner energy is not well understood. The community should be made fully aware of the choices available, their implications and consequences so that the decision can be made wisely.

There have been calls for a review of the current regulatory regime, largely criticising the SoC for failing to meet the community's expectation. In fact, the SoC has been serving Hong Kong well for 50 years. Its terms have been evolving with time to reflect continuous refinements made to the regulatory framework and the changing aspirations of the community. Most importantly, it has ensured the delivery of a highly reliable and environmentally-friendly electricity supply at reasonable cost for Hong Kong.

The electricity industry is capital intensive, involving advanced technologies and very long lead times. It is crucial that a clear, fair and stable regulatory environment is provided to ensure that the significant capital investments can be delivered and a fair return is provided for a commercial company to continue its investment to ensure a sustainable electricity industry. We have been making this point over the past years, and we intend to step up our public engagement with customers and stakeholders so that they may gain a better understanding of the complex issues underlying these decisions.

Saluting a Remarkable 50-Year Relationship

Turning now to the CAPCO acquisition, for the record, I am delighted that in collaboration with CSG, in November we reached agreement with our long-term partner ExxonMobil to each acquire half of its 60% interest in CAPCO. Following the completion of the transaction, CLP will hold 70% of CAPCO, while CSG will hold the remaining 30% stake.

As stated earlier, I intend to reflect on our long-term partnership with ExxonMobil and the rationale behind the acquisition of CAPCO shares with CSG. In doing so, I want to pay tribute to the foresight and vision displayed by ExxonMobil half a century ago, when our partnership was forged, and acknowledge the role it subsequently played in the development of the power sector in Hong Kong. At the same time, it gives me great pleasure to welcome our new partner CSG in CAPCO. This arrangement symbolises not just our commitment to Hong Kong, which is greater than ever, but a recognition of the closer integration of Hong Kong with Guangdong.

Above all, the acquisition reaffirms our commitment to continue to serve Hong Kong. CLP has been providing safe and reliable electricity to fuel Hong Kong's growth for over 110 years. The fact that we are investing HK\$12 billion in the CAPCO acquisition underlines our confidence in the future of the city's power sector and our role in that future.

The prospects that this exciting acquisition brings would, however, not be as promising if it had not been for what went before it. Our longstanding alliance with ExxonMobil, then known as Standard Oil in the US or Esso elsewhere, was forged in 1964. Hong Kong – and the world – was a very different place then. Hong Kong's industrial prowess as one of the four so-called Asian Tigers was in full flow and the population was growing at an astonishing rate following large scale emigration from the Mainland. The economy was growing at a spectacular rate and the power industry was in need of massive investment to meet the insatiable energy demands that post-war Hong Kong was experiencing.

By pure chance, my father, the late Lord Kadoorie, had a meeting with the then Chairman of Standard Oil, Michael Haider. What followed were rounds of discussions that led to a joint venture in CAPCO, of which ExxonMobil owned 60% and CLP 40%. It was the largest commercial transaction that had ever taken place in the territory at that time and brought confidence all round. It was a strategic partnership that has served our Company – and Hong Kong – well. Indeed, the partnership has grown well beyond any point that could have been foreseen at the time. It has gone from strength to strength through the construction of the Tsing Yi, Castle Peak and Black Point power stations.

Over the years, the partnership has continued to deliver on its commitment to Hong Kong by pioneering the use of the best available technologies for environmental and operating efficiency, including the introduction of cleaner gas-fired power in the mid-1990s and the retrofitting of Castle Peak Power Station with world class emission reduction facilities in the late 2000s.

These initiatives have played an important role in improving the air quality of Hong Kong, as well as enhancing the efficiency of the delivery of power to the majority of our population, that is our customer base in Kowloon and the New Territories.

In the past decades, CAPCO played its part by making massive investments in Hong Kong's power generating capability. These investments paved the way for the prosperous development of Hong Kong, which we continue to enjoy to this day, and which will, in my view, continue for many more years to come.

Throughout this period, and in all of these investments, ExxonMobil has supported our focus and commitment to the highest safety standards. The safety disciplines and practices that ExxonMobil brought to our partnership have contributed to the first class safety record that CAPCO has achieved over the years. Indeed, the learnings CLP has gained through our partnership have enhanced our own capabilities and assisted us to deliver on our commitment to safety across all our business.

Strengthening a Strategic Partnership

Our new partnership with CSG in CAPCO is, in many respects, a natural extension for us in light of our successful cooperation over the years. Our two systems have been connected since CLP first supplied power to Guangdong in 1979, strengthened further when we began importing power from Daya Bay in 1994 and will become more closely interconnected with the closer integration of Hong Kong and Guangdong. The transaction will allow us to develop those arrangements into a strategic relationship. We anticipate being able to collaborate on other commercial opportunities as our partnership matures.

As I have noted above, we have enjoyed a long and successful partnership with ExxonMobil which for half a century has contributed to the power industry of Hong Kong. We look forward to further strengthening our strategic relationship with CSG, confident that what succeeded for us in the past can be replicated in the future.

Before I close, I would like to once again acknowledge with thanks the great service our outgoing CEO, Andrew Brandler, has provided over the last 13 years. At the same time, I am delighted to welcome our new CEO Richard Lancaster, who has had a distinguished career in our Company since joining us in 1992. The Board and I are confident that the Company remains in very safe and reliable hands with Richard and his management team at the helm.

The Hon. Sir Michael Kadoorie

CEO'S STRATEGIC REVIEW

In this, my first, Strategic Review I would like to start by underlining my commitment to repay the trust the Chairman and Board of Directors of CLP have placed in me by appointing me Chief Executive Officer. Second, I wish to acknowledge the solid foundation left to me by my predecessor, Andrew Brandler, who spent 13 successful years in this post. The task ahead of me is to build on this foundation, so that the Company continues to grow and prosper for the benefit of our shareholders and, on a larger scale, benefit Hong Kong and all the communities we serve.

In tackling my new responsibilities, I would stress that there will be no fundamental change to the Group's "2020 Vision". We plan to continue the strategic direction that was set out by the Board in 2009 and has guided us over the past five years. It is as well to remind ourselves from time to time of the keystones of that vision.

It is generally recognised that the operating environment in the energy markets in which we operate, has become more challenging in recent years. The regulatory issues we faced in Hong Kong in 2013 relating to the Interim Review of our SoC, the 2014-2018 Development Plan, and the 2014 Tariff Review are but one example. With the performances of some of our overseas operations continuing to be mixed, our near-term focus will be on strengthening those businesses.

We are prepared to roll up our sleeves to get those operations that are facing ongoing challenges running profitably and generating the return we would expect. Over the next few years, we plan to continue to grow the business at a measured pace.

In the following paragraphs, I shall outline the most pertinent issues in each of our major business streams and summarise our strategic direction for the businesses. I shall focus on the performance of Hong Kong and Australia as these two markets account for 95% of our revenue. More details will be discussed later in the specific country sections.

Staying Focused

CLP has run very successful and reliable businesses for over a hundred years, particularly our core operation in Hong Kong. If I were asked to describe our current strategy in a word, the word I would choose is “focus”.

In Hong Kong, we have a vertically integrated, regulated business which is the core of our operations. We generate, distribute and provide a world-class electricity supply to 2.4 million customers with a reliability rate of 99.999% – that takes focus and an unswerving commitment to doing things right for the benefit of our customers. Over the past decade, we have expanded our business outside of Hong Kong based on our view that a diversified portfolio would provide growth opportunities and reduce business concentration risks. We have focused our diversification in selected markets in Asia Pacific, including Australia, India, the Chinese mainland and other assets in Southeast Asia. In these regional markets, we focus on parts of the electricity supply chain where foreign investors are able to establish a reasonable-sized business.

Hong Kong

In 2009, we issued “Towards a Greener Pearl River Delta – a Roadmap for Clean Energy Generation for Hong Kong”, which set out CLP’s vision for energy over the next decade. As our Energy Vision explains, the outlook for our Hong Kong business includes the development of clean and reliable electricity supplies on three levels:

- strengthening infrastructure integration;
- adopting a cleaner fuel mix; and
- promoting energy efficiency.

In 2013, we made some significant decisions that allow us to realise the commitments in our Energy Vision.

First and foremost, as noted by the Chairman in his Statement, we announced our plan to take control of CAPCO, which owns CLP’s three power stations in Hong Kong, by teaming up with CSG to jointly acquire the 60% stake in CAPCO held by ExxonMobil. At completion, CLP will own a controlling 70% stake in CAPCO, up from 40% currently, while CSG will own the remaining 30%. Separately, CLP will also purchase ExxonMobil’s 51% stake in Hong Kong Pumped Storage Development Company, Limited (PSDC).

The CAPCO acquisition is significant as it gives CLP majority control over our core generating assets, enabling us to better coordinate our generation business with our transmission and distribution operations. It also reflects our confidence in the future of Hong Kong’s power sector and reaffirms CLP’s commitment to this city. As we have done in the past, we intend to continue to invest in our core market. In the run up to the completion of the transaction, we will continue to work closely with ExxonMobil and CSG to ensure a smooth transition.

Importantly, as the Chairman has written, we look forward to further collaboration with CSG to bring further long-term benefits to Hong Kong. I believe this closer relationship with CSG puts us on a clear path to strengthen our infrastructure integration with Guangdong.

Notwithstanding the change in ownership, I want to stress that our action will in no way diminish our drive to providing a safe and reliable electricity supply, with continually improving environmental performance, excellent service and value for money for our customers. That is the CLP's way, and is not about to change now or in the future.

SoC Interim Review

Turning to the regulatory front, the 2013 Interim Review of the SoC Agreement with the Government was satisfactorily concluded in November 2013. One of the initiatives introduced by the Interim Review is the establishment of an Energy Efficiency Fund to carry out improvement works to enhance the energy efficiency of non-commercial buildings. CLP expects to contribute some HK\$70 million to it. We welcome this as another significant step towards our Energy Vision, our goal of actively encouraging the community to use electricity wisely and our commitment to promoting energy efficiency and conservation (EE&C).

Development Plan and Tariff Profile

Our Development Plan for January 2014 – September 2018 sets out what we will do over the five-year period to maintain CLP's supply reliability, meet growing demand and enhance environmental performance through supply and demand side measures, with projected capital expenditure totalling HK\$34.1 billion. We are committed to delivering these capital projects on schedule, within budget and in a quality manner as we always have.

The Development Plan also establishes the approved Basic Tariff profile for the five years it covers. From now to 2018, the approved capital spending, together with operating costs, is expected to increase the Basic Tariff by around 1.8% annually. This modest increase is the result of very prudent financial management and various initiatives to improve our work processes.

However, rising fuel costs remain a major challenge. Fuel costs are not part of the tariff. Fuel is a pass through, non-profit cost, in addition to the Basic Tariff. While CLP does everything in its power to control the cost of producing electricity and distributing to our customers, there is little we can do to control the cost of the fuel we need to procure from the international marketplace which is determined by global supply and demand. As a result, rising fuel costs will continue to put pressure on our customers in Hong Kong. To meet tighter statutory emission caps for power generation which come into effect in 2015, we will need to use more gas to generate electricity in place of cheaper coal. Our gas consumption in 2015 may need to double from 2014 levels to meet these requirements. Fuel cost pressures will continue to intensify with the increased use of more expensive gas, which is priced at international market levels. These pressures are particularly acute for CLP as we and our customers are shouldering about 90% of the responsibility under the tighter emission caps.

CLP's key commitment is to make every effort to mitigate the impact of this tremendous challenge. At the same time, we will continue to care for the community by implementing a range of programmes to help our customers save energy and reduce their bills. To enhance information transparency and enable our customers to better understand the costs of fuels required to generate the electricity they need, we have been publishing data on energy costs for electricity generation and electricity sales each month on CLP's website.

We take no pleasure from having to pass on increases of any kind, but as a commercially and socially responsible company, we must act in a way that will enable us to continue the kind of safe and reliable service to our customers in a sustainable manner that is, frankly, the envy of other places around the world. It is worth repeating that the 99.999% reliability of our services in Hong Kong is one of the highest in the world. At the same time, our tariffs are among the lowest when compared to major cities such as Sydney, London and New York. I believe our customers expect and deserve nothing less.

Fuel Mix Consultation

In Hong Kong, our current balanced fuel mix of gas, coal and nuclear has served our society extremely well, providing a remarkably reliable electricity supply and giving CLP the flexibility to change our actual fuel mix year by year to optimise fuel costs and help manage tariffs. The Government is expected to launch a public consultation on the fuel mix to be used for future electricity generation in the first quarter of 2014. Great care and detailed planning are needed if this balanced portfolio of energy sources is to be changed significantly, so as to ensure that reliability can be maintained. On our part, CLP will provide information on the options available to help our community determine an appropriate policy, as we have pledged in our Energy Vision. After the Government and the community decide what the most appropriate future fuel mix for Hong Kong is, we will support the direction adopted and continue to deliver a reliable supply of electricity to our customers.

Australia

In 2013, the performance of EnergyAustralia continued to be affected by the decrease in wholesale electricity prices, continuing high levels of competition in energy retailing and extra costs associated with the implementation of the new Customer First (C1) billing and customer care system.

In the retail market, there has been a pronounced decline in electricity demand caused by rising prices, higher network costs, government renewable and energy efficiency programmes, growing popularity of rooftop solar photovoltaic systems and energy efficiency savings. The situation has not been helped by keen price competition amongst retailers. Business demand, meanwhile, has been hindered by a slowing manufacturing environment, in part due to rising energy costs, a high value Australian dollar and a slowing global economy.

Internally, EnergyAustralia is making good progress with the issues related to the implementation of C1 – that have weighed on the company's performances for months. In the second half of 2013, C1 was stabilised and the registrations backlog and number of unbilled accounts have reduced substantially. C1 now provides a solid platform on which we can integrate the 1.4 million customer accounts currently being serviced by Ausgrid under a Transition Services Agreement. Once this is complete, we should see significant cost reductions in the retail business.

At the Yallourn Power Station and mine, the Morwell River Diversion reconstruction was completed and labour disputes have been resolved. We look forward to working together with our employees there to secure the future of the plant.

Simply put, we are actively addressing these internal issues and we are seeing improvement in the operation of the business.

Externally, the wholesale electricity market is continuing to see suppressed prices resulting from an over-supply of generation and falling demand. Demand is dropping due to a combination of factors including the closure of some energy-intensive industries and the growing popularity of domestic solar panels, often assisted by generous feed-in tariffs. As mentioned, the over-supply of electricity generation, aggravated by a rush to build renewable energy projects to meet Australia's Renewable Energy Target, is an industry-wide issue. It may take some years for the supply and demand situation to return to balance and this will require the closure of older, less competitive generation facilities.

In 2013, EnergyAustralia took a number of steps to improve the fundamentals of its business with the aim of reducing costs, increasing efficiency and enhancing capabilities. In the retail area, the focus has been on the stabilisation of our C1 system and planning for the integration of our Ausgrid customer base as well as gaining efficiencies from reduction in bad and doubtful debt and labour costs. A corporate cost efficiency programme has already delivered saving and will continue to seek improvements across our support functions.

A number of initiatives have also been undertaken within our generation portfolio. We completed a majority sell-down of Waterloo Wind Farm, realising proceeds of A\$228 million, while at Yallourn, a major optimisation study has resulted in modification of our maintenance investment strategies.

In addition, our acquisitions of Mount Piper Power Station and Wallerawang Power Station in New South Wales (NSW) enhance our operational flexibility and reduce the costs associated with operating these plants. Subsequent to a review of our capital and operating strategies in line with market conditions, we removed one of Wallerawang's two units from service.

In light of the challenging operating environment expected over the coming years, we have taken a decision to recognise a non-cash accounting impairment and other charges of HK\$3,106 million after tax, primarily in relation to our investment at Yallourn and our gas-fired assets. Yallourn has suffered from declining demand and oversupply of base load energy in Victoria, which has led to overall lower actual and forecast wholesale electricity prices. Our gas-fired assets are impacted by declining demand and rising gas prices. Additionally, the strong likelihood of the removal of the current carbon tax regime, which favours clean energy generation, may adversely affect our gas plants.

In spite of these impairments, there is considerable strength in our underlying portfolio, which is well diversified by geography, fuel type and operational mode. It is concentrated in Victoria and NSW, the largest retail markets in Australia. At the same time, our generating assets are supported by brown coal reserves, black coal supply contracts and development options, long-term gas contracts and gas storage operations. This diversity and flexibility allows us to effectively manage opportunities and risks across our portfolio in response to market conditions. EnergyAustralia will continue to assess market conditions and will actively review the optimum size, operating strategies and holding structure of its generation portfolio in response to these conditions.

Chinese Mainland

Our operation in the Chinese mainland had a record year as we continued to benefit from the reliable operating performance of Fangchenggang Power Station in Guangxi Region and the improved performance of our renewable portfolio. This underlines the merit of our focused strategy on the Mainland of selective investments in nuclear power, coal-fired generation and renewable energy, accompanied by the divestment of minority stakes in joint ventures with limited growth prospect. In line with this strategy, we sold our biomass plant at Boxing given the project has limited potential for growth.

Consistently good performance at Fangchenggang convinced us to embark on an expansion plan for the project, of which final approval is expected in the first half of 2014.

We aim to increase our renewable energy portfolio and, on top of our existing very successful wind and hydro projects, plan to develop more solar power projects. Thanks to the growing maturity of solar photovoltaic technology, a significant reduction in solar panel prices and attractive feed-in tariffs, we will continue to explore solar investment opportunities in addition to the Jinchang Solar Power Station in Gansu, our first majority-owned solar project.

While shareholders may note that we announced in September 2013 that talks with China General Nuclear Power Corporation regarding the acquisition of a 17% equity share in Yangjiang Nuclear Power Station have been discontinued, we remain confident of prospects for the Mainland's nuclear sector.

India

Fuel security, or the lack of it, has been a serious issue affecting our performance in India and the power industry as a whole. But I am pleased to report that we are seeing some turnaround in the situation for coal. Looking ahead, we are cautiously optimistic about the market.

For CLP India, the second half of 2013 was much better than the first half largely because we are now receiving both imported and domestic coal from various sources. As a result, our coal-fired power station at Jhajjar has been operating reliably with availability reaching 62.8% for the year despite the coal shortages earlier in the year. We finished 2013 strongly with the plant recording its highest ever availability figure of 98.2% in December. We are confident in sustaining this much improved operating position.

Affordable gas supply, meanwhile, remains sporadic following the depletion of existing domestic natural gas reserves. Although the underlying profitability of our gas-fired plant at Paguthan is protected under the existing PPA as long as it is available for despatch, we will continue to explore other sources of reasonably-priced domestic gas to support the plant. Given these severe gas shortages, we have had to renegotiate some of the terms of the PPA at the request of the off-takers to address the resulting low levels of despatch and we have successfully reached agreement with them. In addition, we have revised the outlook on the residual value of the post-PPA operation. As a result, we made a one-off provision of HK\$293 million in 2013 to reflect the expected changes. We believe that the renegotiation will place the contractual arrangements for Paguthan on a sounder footing for the remainder of the PPA term.

For now and for the foreseeable future until the fuel security issues are addressed, while we continue to evaluate opportunities in the conventional space, we will focus our new investment on wind projects. We are already the leading wind developer in India with over 1,000MW of committed assets. In future, we expect wind to continue to be an integral part of CLP's growth plans for India and our commitment to combatting climate change.

Southeast Asia and Taiwan

At present, we have two greenfield coal-fired power stations that have been under development for some years in Vietnam. These projects are maturing and over the next 12 to 18 months, these projects may advance to a point where CLP will have to decide whether to proceed or to monetise the value of the development work which has been completed.

CLP's remaining 20% stake in Ho-Ping Power Station in Taiwan might be regarded as a legacy investment, in the sense of being a minority shareholding with little expansion potential. However, Ho-Ping has provided a regular and stable contribution to the Group's earnings and cash flows, whilst making few demands on management time and resources.

Managing Climate Change

In 2007, we published our Climate Vision 2050, which laid out our voluntary commitment to reduce the carbon intensity of our generation portfolio by the year 2050. In 2010 after reviewing our performance, we decided to set new and more ambitious interim targets for 2020.

In 2013 the acquisition of the coal-fired Mount Piper and Wallerawang power stations in Australia and the planned increase in our shareholding of CAPCO will have moved us further away from those targets, but we remain firmly committed to our 2020 targets and confident of seeing them through to fruition. Given the scale of the acquisitions coming close together we will see a temporary increase in carbon intensity, but with continued, steady investment in non-carbon emitting energy, this change will be reversed.

Funding Our Business

To fund the HK\$14 billion CAPCO and PSDC acquisitions, we have executed loan facility agreements for HK\$10 billion in addition to internal available resources and existing available banking facilities. We have not made the final decision on the long-term financing for this investment. The options and implications to our capital structure are still under review with a decision likely to be made closer to completion of the transaction. In any event, I can assure you that CLP remains financially strong and will continue to maintain our longstanding financially prudent strategies to obtain diversified funding from banks and capital markets at competitive rates.

The refinancing we completed in Australia in 2013 highlighted the strong support we received from our relationship banks. EnergyAustralia signed a A\$2.1 billion loan syndication to extend and refinance its existing bank loan facilities, notwithstanding the fact that the company was on credit watch at the time.

We will continue to gauge our long-term financing needs in all markets and review our financing options from time to time. These options may include, but are not limited to, loans, bonds, hybrid securities and equity. We will regularly assess our portfolio and capitalise on our assets, if and when the right opportunities arise.

Controlling Costs

Owing to substantial rises in material, contract and labour costs in recent years, we are under heavy cost pressures both in and outside of Hong Kong. To ease those pressures, we will continue our prudent financial management, improve our work processes and efficiencies and control costs. One initiative we have employed is shifting functional responsibilities and related resources from the Group to the business units enabling us to reduce headcount at the Group level.

Investing in Customers

In my experience, customer service is one of the most important aspects of our business. We need to get it right, and by and large, I believe we have succeeded in doing so. CLP is in the business of delivering energy to the people of the Asia-Pacific region. We are delighted to be able to work with a range of business partners and suppliers who have helped us become what we are today – one of the largest and most responsible energy providers in the region. On top of that, we have been highly privileged to serve our retail customers in Hong Kong and Australia. Continuing and improving on our excellent standards of customer service is a top priority.

Looking Ahead

For many years, CLP has been enjoying the service of a group of very loyal and long-serving colleagues. The consequence of this is a significant portion of staff including Senior Management have approached or are approaching retirement. 2013 saw some senior executives stepping down including Andrew Brandler and Peter Greenwood. The Managing Director of EnergyAustralia, Richard McIndoe, announced his resignation in December 2013 and we have begun a global recruitment process to identify and appoint his successor. I would like to express my sincere thanks to them for their hard work and contribution to the Company over the years. Our sound succession planning process has ensured a smooth transition. Notwithstanding the changes, we will continue to adhere to the strategic direction set out by our Board.

In summary, 2013 has been a challenging yet exciting year, involving, as the Chairman has remarked in his statement, the agreement to acquire a majority share of CAPCO, the successful and satisfactory resolution of a number of regulatory issues in Hong Kong and improvements to some of our investments in Asia Pacific. None of this is to suggest complacency as we move into the next phase of growth. The changing socio-political environment in Hong Kong, the issues we continue to face in our regional investments and the ever-changing environment within our industry mean that as a team, we need to continue to focus and build on the strengths that have served the Group so well over such a long time. With the support of my colleagues, I intend to put my best efforts to that purpose.

Richard Lancaster

FINANCIAL PERFORMANCE

Earnings from our electricity business in Hong Kong grew steadily on higher average net fixed assets. On the other hand, lower demand coupled with lower pool prices and higher operating costs adversely affected our Australia business. Earnings from the Chinese mainland and India increased as a result of lower coal prices and improved coal supply in Jhajjar respectively. Taking into account of the one-off items, mainly the impairment provisions for various generation assets of EnergyAustralia and the bargain purchase gain on the acquisitions of Mount Piper and Wallerawang, total earnings down 27.1% to HK\$6,060 million.

	2013		2012		Increase/ (Decrease)
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Electricity business in Hong Kong (HK)		6,966		6,654	312
Energy business in Australia		126		1,685	(1,559)
PSDC and sales to Guangdong from HK	125		108		
Power projects in Chinese mainland	2,131		1,411		
Electricity business in India	184		(182)		
Power projects in Southeast Asia and Taiwan	241		243		
Other earnings	(17)		51		
Earnings from other investments/operations		2,664		1,631	1,033
Unallocated net finance costs		(26)		(74)	
Unallocated Group expenses		(423)		(490)	
Operating earnings		9,307		9,406	(99)
One-off items from Australia		(2,582)		(685)	
Impairment provisions for Paguthan, CSEC Guohua and Shenmu in 2013/Jhajjar and Boxing Biomass in 2012		(590)		(409)	
Divestment from Boxing Biomass		(75)		-	
Total earnings		6,060		8,312	(2,252)

The performance of individual business is analysed under individual business section.

BUSINESS PERFORMANCE

Electricity Business in Hong Kong

Financial Performance

Earnings from our Hong Kong electricity business were HK\$6,966 million, a 4.7% increase from HK\$6,654 million in 2012. The rise was mainly due to the increase in permitted return from a higher level of average net fixed assets.

Operational Performance

Business Environment

Under the current regulatory framework of the SoC Agreement, CLP provides a world-class, safe and reliable energy supply at a reasonable cost to our customers in an environmentally responsible manner.

Our business continues to face considerable tariff pressures, through further tightening of emissions caps whereby CLP and our customers are shouldering significant responsibility for the increasing use of cleaner fuels for energy generation as the Government pursues improvement in air quality.

In the first quarter of 2014, a new round of public consultation on Hong Kong's fuel mix policy is expected to launch. This will shape Hong Kong's energy policy choices, which will have considerable implications on fuel costs. Great care and planning are needed if the current balanced portfolio of energy sources is to be changed significantly to ensure that reliability can be maintained. Hong Kong needs a very reliable supply of electricity. The current balanced fuel mix of gas, coal and nuclear has served Hong Kong well, providing a very reliable electricity supply and giving us the flexibility to change our actual fuel mix year by year to optimise fuel costs and help manage tariffs. It is important to keep options open that allows for the flexibility to use a diversity of fuels and generation technologies, which will help lower generation costs in the long run.

Meeting Demand

One of the key cornerstones by which we measure our performance is our ability to meet demand for electricity in Hong Kong, every day of every year. This was again achieved in 2013.

Local sales of electricity were 31,783 gigawatt hours (GWh), representing a decrease of 0.7% compared to 2012. This reduction was attributable to lower humidity in the first quarter and cooler weather over the summer.

	Increase/(Decrease)		As Percentage of Total Local Sales
Residential	(242GWh)	(2.7%)	27%
Commercial	18GWh	0.1%	41%
Infrastructure & Public Services	70GWh	0.8%	26%
Manufacturing	(58GWh)	(3.1%)	6%

Sales to the Chinese mainland amounted to 1,650 GWh, a 10.2% decrease from 2012, mainly due to lower committed sales to Guangdong Power Grid Corporation. Total electricity sales, including both local sales and sales to the Mainland, decreased by 1.2% to 33,433 GWh.

Increasing our stake in CAPCO

As noted in both the Chairman's Statement and CEO's Strategic Review, a significant change in the ownership of our generation portfolio is set to take place after we announced plans to acquire ExxonMobil's 60% interest in CAPCO together with CSG. In a separate arrangement, CLP Power will also purchase ExxonMobil's 51% stake in PSDC.

The transaction not only provides us with greater control over our asset portfolio, but further strengthens our strategic relationship with CSG through our joint shareholding in CAPCO. This paves the way for potential new business opportunities for both CLP and CSG in Hong Kong and Southern China.

Completing the SoC Interim Review

In November 2013, CLP completed the SoC Interim Review with the HKSAR Government. We made further commitments to raise awareness of energy efficiency and conservation by establishing an Energy Efficiency Fund to encourage owners of non-commercial buildings to participate in energy efficiency activities. We will also increase information transparency to customers and enhance our already high performance standards.

Delivering Capital Investment

To maintain the safety and supply reliability of Hong Kong's electricity service and to meet demand as well as support local infrastructure development, we have successfully delivered against the 2008-2013 Development Plan (DP), involving a capital expenditure of HK\$41.6 billion. This includes the completion of our Emission Control Project at Castle Peak Power Station (CPPS) to further improve emission performance, and the construction of a new gas receiving station and modifications for equipment at Black Point Power Station (BPPS) to enable it to migrate to the new gas from PetroChina's Second West-East Gas Pipeline (WEPII).

In 2013 we invested HK\$7.5 billion in generation, transmission and distribution networks, as well as in customer services and supporting facilities. These investments are aimed at enhancing the reliability, stability and efficiency of our supply network and quality of our customer service. Such investments also safeguard the timely provision of electricity supply for our customers and new infrastructure projects, including the developments in Kai Tak and West Kowloon, new data centres, the rapid expansion of Hong Kong's railway network and the Hong Kong-Zhuhai-Macau Bridge.

In December 2013, we received approval from the Executive Council for our 2014-2018 DP, which projects a capital expenditure of HK\$34.1 billion over the period from January 2014 to September 2018.

Although the HKSAR Government's fuel mix consultation is expected to launch in the first quarter of 2014, no new generation plant was included in the new DP. The total spending on capital projects focuses on three core and much-needed areas including:

- supporting local infrastructure development and meeting customer load requirements, including new electric traction supply sources for the Shatin to Central Link and the Express Rail Link, and infrastructure supply for new cross border facilities;
- maintaining safety and supply reliability through asset refurbishment and improvement work; and
- improving environmental performance.

As part of the new DP, three of our gas turbines at BPPS will be upgraded to improve operational efficiency and reduce emissions. In addition, conversion of CPPS units will be continued to enable the use of ultra-low sulphur diesel to further improve emissions performance. On the demand side, an Automated Demand Response programme will be implemented to assist industrial and commercial customers in reducing their electricity load during peak demand times.

The approved capital spending, together with operating costs, is expected to increase the Basic Tariff by an average of around 1.8% per annum over the five years covered by the new DP. In spite of rising construction costs in the local market and high commodity prices internationally, the expected modest increase in Basic Tariff will be achieved by:

- optimising our capital and operating expenses;
- increasing automation;
- adopting comprehensive procurement strategies;
- introducing best practice activities and benchmarking against overseas utilities; and
- refurbishing and extending the life of equipment and assets (rather than replacing them).

Increasing Gas Supply

With our current natural gas supply from Yacheng depleting, the arrival of natural gas from the WEPII to BPPS marked a major step in the implementation of the Memorandum of Understanding (MOU) signed between the HKSAR Government and the Central People's Government in 2008. This new gas supply will also supplement our need to meet tightening environmental requirements and upcoming climate change policies.

This new gas resource is delivered through a new 20-km subsea pipeline connecting to WEPII at Dachan Island in Shenzhen and ending at BPPS. These new facilities, referred to as the "Hong Kong Branch Line" (HKBL), are jointly owned by PetroChina (60%) and CLP (40%). We have received approval from the Ministry of Commerce to establish a joint-venture company with PetroChina. The business licence was issued in the fourth quarter of 2013.

Construction and commissioning of the HKBL has been completed with all eight gas-fired generation units at BPPS converted since August 2013. Consumption of the new gas has been stable.

We are also continuing discussions on alternative offshore natural gas supplies and the new Shenzhen LNG Terminal Project for meeting future gas needs.

Importing More Nuclear Energy

Daya Bay Nuclear Power Station (Daya Bay) continues to play an important part in providing clean energy to meet Hong Kong's electricity demand. To ensure that more clean and cost-competitive energy is provided to Hong Kong, an agreement has been reached, whereby Daya Bay will increase its electricity supply to Hong Kong from 70% of its output to approximately 80% for late 2014 to 2018. Having access to additional supply from an existing facility with an excellent safety record will provide an alternative economical source of clean energy for Hong Kong.

Ensuring Reliability and Improving Power Quality

CLP continues to deliver one of the most reliable electricity services in the world. Between 2011 and 2013, a typical CLP customer experienced an average of only 2.3 minutes of unplanned power interruptions per year, as compared to 16-35 minutes in New York, Sydney and London (between 2010 and 2012 – the latest available data). As noted by our Chairman in the Chairman’s Statement, CLP achieved its best record on supply reliability in 2013. This demonstrates CLP’s continued effort in improving the resilience of its power system by adopting advanced technologies, emergency preparedness, a dedicated workforce and leading operating and maintenance practices.

To protect our system against the increasing likelihood of super-typhoons, in 2013 CLP continued to strengthen our transmission overhead lines, tower structures and foundations. In addition, we conducted an emergency drill to practice the rapid assembly of pylons should a 400kV tower requires emergency replacement. In September 2013 as Super Typhoon Usagi approached, CLP activated its emergency management team and engaged customers proactively in mitigating risks of operational disruption.

Lightning strikes on our overhead lines are inevitable and occasionally cause voltage dips that affect sensitive equipment. To minimise voltage dips and mitigate impacts to customers, in 2013, CLP installed lightning protection on our transmission and distribution facilities and customised our power quality solutions for customers’ sensitive equipment.

Enhancing Customer Service

In 2013, we once again met all 12 performance pledges that set out our targeted performance in areas of particular importance to our customers, such as reliable electricity supply and prompt response to emergency service hotlines. These pledges, and our performance, are described on our website.

2013 also saw the introduction of a series of new customer service initiatives and a new Customer Services Improvement Plan with 38 initiatives. Initiatives included progress tracking services for customer applications and consumption alert for targeted residential customers and small-to-medium enterprises (SMEs). We also successfully rolled out a new web-based platform to enhance customer interaction.

Promoting Energy Efficiency and Conservation

As underpinned by our Energy Vision, CLP is firmly committed to EE&C. Some figures illustrate the scale of our efforts in promoting energy saving:

- Over 50,000 people/organisations took part in the “Let’s Save Now for a Better Future Energy Saving Competition”;
- CLP held the second GREEN^{PLUS} Recognition Award in 2013 to recognise the best energy-saving performers among 2,400 participants;
- Over 20 schools joined our GREEN^{PLUS} School programme in 2013;
- CLP invited more than 150 commercial and industrial customers to join a Green Building Symposium in support of the HKSAR Government’s green buildings initiatives;
- CLP launched the first Energy Benchmarking service dedicated to data centres;
- The first Data Centre Symposium, which attracted over 150 customers, business partners and stakeholders;
- Over 4,000 customers benefited from our 62 Eco Ambassador outreach programmes;

- Since March 2013, over 5,000 people visited CLP's Eco Home and EE&C Education Centre; and
- CLP's Smart Grid Experience Centre has received over 8,300 visitors since its opening in 2011.

Managing Our Tariff

We continue to exercise very prudent cost management to ensure that the level of any tariff adjustment is reasonable. For 2014, our Fuel Clause Charge remains unchanged and we have taken a range of measures to mitigate the impact of increasing fuel costs, including deferring the use of more costly natural gas, using more low emission coals, enhancing the operational performance of generation facilities and increasing power import from Daya Bay from late 2014.

However, due to an overall increase in non-fuel operating costs, and the depletion of the Tariff Stabilisation Fund, which is used to smooth out tariff fluctuations, the Average Basic Tariff for 2014 increased by 4.2 cents per unit of electricity. CLP's Average Total Tariff increased by 3.9% effective 1 January 2014.

To encourage energy conservation and assist low consumption customers, we will continue our Energy Saving Rebate Scheme. The Scheme is expected to result in 33% (or around 700,000) of domestic customers and 43% (or around 133,000) of small business customers having no tariff increase in 2014. Moreover, we have adjusted the tariff structure for residential users to encourage energy saving.

Rent and Rates

On 3 January 2014, the Lands Tribunal gave its decision in the valuation review of its original April 2013 decision, in CLP's favour on each of the key points raised in the review. While we were pleased with this outcome, we decided to file an appeal against the 2014 Lands Tribunal decision as we believe that there are still points of the original decision which lead to CLP being overcharged rent and rates. All interim refunds received from the Government to date for overcharged rent and rates, totalling HK\$1.6 billion, have been fully rebated to customers, so we ceased the special rebate from 16 October 2013. However, as we have done in the past, we will stand by our commitment to return to customers any refunds of overcharged rent and rates we may receive from the Government in the future.

Environmental Performance

Air Emissions

CLP has been contributing significantly to improve Hong Kong's air quality by reducing emissions from our power plants. Over the last two decades, in spite of an approximate 80% increase in electricity demand, we have reduced our Sulphur Dioxide (SO₂), Nitrogen Oxide (NO_x) and Respirable Suspended Particulates (RSP) levels – also by about 80%.

Emissions from each of the individual power stations are influenced mainly by the fuel used, changes in emissions controls and/or how much electricity is generated. In 2013, despite less natural gas being available from the Yacheng, and the need to minimise gas usage for fuel cost management, we continued to meet the stringent emissions caps set out by the Government. We continuously optimised our diversified fuel mix strategy, using more low emissions coal, enhancing effectiveness of the emissions control facilities and making the best use of natural gas. These initiatives contributed to the achievement of the 2013 emissions performance, which, though slightly higher than 2012, still falls within the range of typical operational fluctuations and regulatory requirements.

We are committed to continuing to work diligently towards the emissions caps set for 2015, which require CLP to reduce its SO₂ emissions by more than 60%, and NO_x and RSP by more than 30% respectively from 2010's levels, while maintaining a reliable electricity supply and a reasonable tariff level. We shall continue working closely with the Government and all parties concerned to facilitate the informed and balanced discussions on the future energy mix for Hong Kong.

Renewable Energy Development

We continue to carefully study the technical and financial feasibility of the proposed offshore wind farm off in the south eastern waters of Hong Kong near the Ninepin Islands. Because of its offshore location, there are many technical challenges that must be more thoroughly assessed to confirm the project's economic feasibility.

Environmental Regulatory Compliance

There were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our Hong Kong assets in which we had operational control in 2013.

Outlook

We believe that our Energy Vision is an important roadmap to achieving a more sustainable energy future. CLP has started and will continue to bring this vision into reality through stronger infrastructure links with the Mainland, adopting a higher proportion of clean energy and promoting a wider and deeper awareness of EE&C.

Subsequent to the approval of the DP and completion of the Interim Review in 2013, the Government is expected to commence its study on the post-2018 regulatory regime. We will continue to actively engage our key stakeholders and the public to communicate the importance of having a regime that strikes a balance between the reliable and safe supply of energy, care for the environment, and a reasonable tariff. Our current world-class performance and excellent supply reliability should not be taken for granted, and should serve as a benchmark against which new options should be judged.

These factors, together with the continuing pressures of fuel costs, will mean that our focus for 2014 will include:

- Continuing to monitor the gas supply from Yacheng, manage the new gas supply from PetroChina's WEP2 and explore other long-term gas supply options;
- Mitigating the potential significant fuel cost increase anticipated from 2015;

- Managing our operating costs to minimise the impact of tariff increases on customers;
- Managing and delivering the 2014 -2018 DP;
- Actively engaging the Government, key stakeholders and the community on the public fuel mix consultation;
- Contributing to the Government's and public's understanding on future regulatory regime;
- Completing the CAPCO transaction and ensuring a smooth transition to the new ownership structure;
- Strengthening assistance to the needy, the underprivileged and the elderly; and
- Establishing a new Energy Efficiency Fund to subsidise non-commercial building owners to enhance building energy efficiency.

Over the longer term, our priorities include:

- Strengthening infrastructure integration with Guangdong, through gas pipelines and potential arrangements to enable the import of additional nuclear power;
- Finalising a cleaner fuel mix, which will involve using more gas, carefully considering the potential import of more nuclear energy and other clean energy, reducing our reliance on coal, as well as promoting the use of local renewable energy sources to the extent practicable;
- Continuing implementation of the inter-Government MOU on energy cooperation so that new long-term gas supplies are brought to Hong Kong in a timely fashion;
- Introducing more energy efficiency services and tools to assist our customers in managing electricity use;
- Exploring further opportunities with CSG;
- Engaging with Government, key stakeholders and the community on the post-2018 regulatory regime; and
- Maintaining excellence in operations at all times, including supply reliability, environmental and safety performance.

Energy Business in Australia

Financial Performance

EnergyAustralia's operating earnings were HK\$126 million, compared to HK\$1,685 million in the previous year. The lower earnings were caused by reduced wholesale prices, decreased contribution from our retail operation due to lower electricity usage and customer accounts, as well as higher operating costs as a result of increased bad debt provision and employee and consultancy costs. The drop in earnings was partly offset by lower mark-to-market loss on energy derivatives.

Following a review of wholesale markets and projected lower wholesale electricity prices, EnergyAustralia has recorded non-cash impairment and other charges of HK\$3,106 million after tax – approximately two-thirds of the impairment relates to Yallourn Power Station in Victoria while the balance relates to our gas-fired generation assets.

Together with the bargain purchase gain on the acquisitions of Mount Piper and Wallerawang of HK\$600 million and the costs related to Yallourn's mine flooding of HK\$76 million, non-recurring items from Australia totalled HK\$2,582 million.

Operational Performance

Business Environment

The Australian energy sector is facing a period of significant change. Declining electricity demand, a growing renewables market, exploitation of new unconventional gas sources and the linkage of domestic gas prices to international prices are initiating a generational change in energy market fundamentals.

Since 2008, we have witnessed an unprecedented decline in electricity demand. Such a sustained decline in electricity use is new for Australia.

This decline has largely been driven by

- Changing consumer behaviour and expectations. Sharp increases in retail prices and the uptake of rooftop photovoltaic and energy efficiency products and services, supported by government-based subsidies have changed energy consumption patterns.
- Adjustments to the composition of Australia's industry sectors. The last 25 years have witnessed a change in composition of Australia's economy from manufacturing industries to service sectors, resulting in lower energy intensity.

Together with falling demand, wholesale electricity prices have softened, resulting in lower revenue for generators. Some generators, including EnergyAustralia, have sought to either reduce output or adjust their planned maintenance programmes. Despite such measures, there has been little impact on the growing gap between available supply of generation and demand.

Regulatory uncertainty over the last five years surrounding the introduction and potential removal of the carbon regime has also impacted wholesale contract market liquidity as market participants are reluctant to enter into hedging arrangements for three years or longer. This preference for shorter contract periods has decreased the effectiveness of contracting as a long-term risk mitigation strategy in the generation sector.

In addition, significant impacts have been experienced as a result of the Renewable Energy Target (RET), which looks for renewable energy generation to have a 20% share by 2020. Unanticipated reductions in electricity demand and forecast demand in the National Electricity Market (NEM) has meant the current overall policy objective of the RET represents a higher market share than originally targeted. One unintended consequence is that the RET is forcing subsidised renewable capacity into an over-supplied wholesale market, further dampening wholesale prices.

At the same time, transformational change is being experienced in the market for gas and coal in eastern Australia. Domestic gas prices are increasing significantly as the domestic market becomes linked to world gas prices via liquefied natural gas (LNG) export projects. The exploitation of unconventional gas to meet export demand is also resulting in an increase in input costs above historical domestic levels adding further pressure to gas prices. In addition, coal supply has become more challenging as costs increase and legacy contracts roll-off, particularly in NSW.

Corporate

Over the last three years EnergyAustralia has become one of the largest vertically integrated energy companies in Australia, through both major acquisitions and organic growth.

Last year was marked by a number of changes to EnergyAustralia's asset portfolio. The most significant was the acquisition of Mount Piper and Wallerawang from the NSW Government for a net cash consideration of A\$157 million in September 2013. Previously, EnergyAustralia held the rights for the majority of off-take from these two power stations. The acquisition provides greater flexibility to EnergyAustralia's energy generation portfolio and reduces costs associated with the fixed contractual commitments under the previous Delta Western GenTrader Agreements. A review of capital and operating strategies has already resulted in one unit at Wallerawang being taken out of service in early 2014. The second unit will be available until March 2014, then removed from service and placed on a three month recall with regular review.

On 31 May last year, EnergyAustralia sold a 75% interest in Waterloo Wind Farm, while retaining the right to operate and manage it. EnergyAustralia will also continue to receive the energy off-take and the large-scale generation certificates that the site creates in the immediate period, to help meet its RET obligations. Separately, the Waterloo Wind Farm received Development Plan Consent to install six additional turbines, bringing the site's generation capacity to approximately 129MW.

Amidst a difficult retail market environment, EnergyAustralia is overhauling its customer service IT system so that it can respond to changes in market and consumer behaviour more effectively and efficiently.

Through 2013 and as described in our Interim Report, EnergyAustralia implemented a number of programmes focused on achieving cost reductions and improving earnings over time. Although the positive actions are helping us, difficult economic conditions, soft markets and internal business challenges led Standard & Poor's to downgrade EnergyAustralia's credit rating from BBB (negative outlook) to BBB- (negative outlook) in October 2013.

In view of the changing energy market fundamentals, EnergyAustralia has undertaken a review of the electricity wholesale market. After rising steadily for many years, demand in the NEM started to flatten in 2007 and has fallen since 2008. This declining trend is now well established and is expected to continue in the near future. At the same time, around 8,000MW of new generation capacity has been introduced into the NEM, reflecting overly optimistic forecasts of a return to growth in demand, the long lead times associated with the planning and construction of thermal plants and the impact of renewables and carbon policy. After allowing for the withdrawal of some old plants the net capacity addition is over 5,500MW. This means that while demand has fallen by around 6% since 2007, an additional 13% of generation capacity has been added to the NEM.

Furthermore, generation output from Australia's hydroelectric schemes was severely constrained late last decade by an extended drought. With the easing of the drought and the introduction of carbon pricing, these generators have increased their contribution to generation output from 5% in 2008 to 9% in 2013.

The effect of these changing dynamics has been to progressively reduce wholesale electricity prices over the last several years and suppress wholesale price expectations well into the future. The extreme heatwaves in Victoria and South Australia in January 2014 further highlighted the current oversupply situation, as wholesale prices remained relatively low despite very high electricity demand levels. This has put particular pressure on the profitability of gas-fired generation assets which are also facing a major increase in domestic gas prices as the linkage to international export markets is established.

Based on these market conditions, EnergyAustralia has reviewed the value of its asset base in accordance with the accounting standard requirements and concluded that a number of generation assets are impaired.

Generation

Our largest generation asset, Yallourn, continued to experience a number of challenges through 2013. Following protracted negotiations with the Construction, Forestry, Mining and Energy Union and restricted operations for over three months, a new Enterprise Bargaining Agreement for operations and maintenance employees at the power station was signed in September 2013.

Work also continued on the repair and re-instatement of the Morwell River Diversion, which is now complete. Staged recommissioning commenced in September 2013. The diversion began carrying the full river flow in late October 2013. The repairs involved more than 195,000 hours of work since January 2013 and over 1.7 million cubic metres of material was used as backfill.

Given these challenges, Yallourn's generation output in 2013 was lower than 2012. Overall, it produced 4.9% less electricity output in 2013, while its availability and operating hours were 15.3% and 4.6% lower than the previous year.

EnergyAustralia's owned and operated gas-fired power stations at Tallawarra and Hallett continued to perform safely and reliably during the year. The Iona Gas Plant also performed well, with high commercial availability. A planned inspection of the Tallawarra gas turbine occurred in May 2013.

Retail

During 2013, EnergyAustralia's retail business faced increased competitive pressure as well as significant internal challenges. Our primary focus was on stabilising C1, our customer care and billing platform. This system will now provide a stable base on which to integrate the 1.4 million customers accounts acquired in 2011 who are currently being serviced by Ausgrid.

C1 became operational in September 2012 to streamline a number of legacy customer service systems previously employed in the business and to improve the overall customer service experience. Unfortunately the system incurred implementation problems whereby some customers experienced delayed billing, registration and credit management issues, which significantly impacted cash flow. EnergyAustralia established a dedicated team to address these issues, which have largely been resolved following a series of successful improvements in the second half of 2013. Registration backlogs of greater than 90 days have been reduced from 160,000 in February 2013 to 16,500 in December 2013 and the number of active unbilled accounts over 30 days has improved from around 100,000 at the beginning of the year to 18,000 at year-end.

The EnergyAustralia Integration Programme (EAIP), designed to smooth the integration of the EnergyAustralia customer base serviced by Ausgrid, is heavily dependent on the successful functioning of C1. With progress on stabilising C1, EAIP is planned for completion towards the end of 2014.

Churn rates within EnergyAustralia's two main retail markets remained high. In Victoria, EnergyAustralia's churn rate was 27.6% whereas the industry rate was 28.6%, while in NSW, EnergyAustralia's churn rate was 17.9% compared with the industry's 17.8%. Nonetheless aggressive competition and price discounting occurred throughout 2013, resulting in a decline of 4% in EnergyAustralia's customer accounts compared to 2012.

In response to customer feedback, EnergyAustralia ceased door knocking as a sales channel from 31 March 2013. EnergyAustralia's two main competitors followed suit and industry churn levels have slowed following these changes, most notably in NSW.

Environmental Performance

Yallourn Flood

As mentioned previously, the Morwell River Diversion work at Yallourn coal mine was completed in late 2013. However, the reconstruction phase posed some environmental challenges in 2013. A flood on 14 June 2013 resulted in floodwaters exceeding the capacity of the diversion repair bypass pipeline system and thus being diverted into the Yallourn mine. The incident incurred no damage to the diversion repair works and the Environment Protection Agency subsequently issued an emergency discharge approval to allow dewatering of the mine by direct discharge to the Latrobe River.

Biodiversity

Australia has the most advanced conservation policies among the countries we operate in. While EnergyAustralia's existing operational sites are not located on or near high value biodiversity areas, given the nature of power generation and associated resource extraction operations, land disturbance is an unavoidable consequence of many of our activities. In order to manage this situation, EnergyAustralia has developed a roadmap to outline how to assess, identify gaps, incorporate stakeholder priorities and develop a biodiversity management plan. The Biodiversity Register is the first step in assessing the impact of our sites on species and habitats and we have completed the register for all our operational facilities.

Environmental Regulatory Compliance

There were no fines or prosecutions arising from environmental-related regulatory non-compliances for our Australian assets in which we had operational control in 2013.

Outlook

The current market conditions in Australia mean the next two years are likely to remain challenging for all energy sector participants, including EnergyAustralia.

The decline in electricity demand is expected to continue and we foresee on-going depressed wholesale electricity prices. Increased fuel costs for coal and gas, combined with long-term legacy contracts reaching maturity, will present challenges and opportunities over the medium term.

Rising gas prices will, however, have a positive impact on our existing portfolio of gas contracts and gas storage facility over the next two to three years. The Narrabri coal seam gas development remains a key growth project over the medium term subject to regulatory processes permitting commercialisation of the project.

EnergyAustralia's legacy black coal supply contracts will come to an end over the next few years. In ensuring on-going coal supply post these contract arrangements, EnergyAustralia has a portfolio of contracts and mining options near Mount Piper Power Station. The NSW Government's decision in 2013 to decline an extension to the Coalpac mining licence may affect future planning decisions and increase the cost of securing coal supplies in NSW.

With the election of the new Coalition Australian Government in September 2013, carbon and renewable policy settings will be subject to further changes in 2014 and beyond. The new Coalition Government has committed to repeal the Clean Energy Act and associated regulations by 1 July 2014. The expected removal of the carbon compensation as part of the repeal will have a financial impact on EnergyAustralia in both 2014 and 2015.

We believe our portfolio of generation assets, fuel supply arrangements and gas storage offers flexibility and optionality for the business to manoeuvre through the challenging market and political circumstances.

A number of gas market reviews are currently underway to explore the future reform pathway for Australia's eastern gas market. EnergyAustralia will play an active role in these reviews by advocating for a policy framework that supports increased transparency and liquidity in gas markets.

In 2014 we will continue to improve C1 and migrate our customers from the Ausgrid system onto the new platform. As a result of this activity our retail costs will remain high for much of 2014, with the efficiency benefits of one system for mass market customers flowing to the business from 2015 onwards.

Other key projects for 2014 will be:

- Continuing to extract efficiencies from C1 including reduction in bad debts;
- Optimising the generation portfolio in line with prevailing market dynamics;
- Pursuing low-cost direct sales including growth in our digital channel; and
- Transforming the IT as well as human resources functions to support improved business performance.

In summary, most of the external issues affecting EnergyAustralia are expected to remain uncertain. But EnergyAustralia will continue to focus on a vertically integrated business as the best model to effectively balance the market risk associated with the supply of energy and meeting consumer demand for energy.

In the medium-term, the strategy will centre on positioning the business for success. Our primary focus is to drive earnings improvement through a substantial and sustained reduction of costs by:

- Leveraging our strong retail presence and providing an innovative and differentiated experience based on the understanding we built in 2013 of customer segments and their needs;
- Improving core efficiency and being at the forefront of digital and technological capability;
- Providing flexible fuel and lower cost generation balanced to the needs of mass market customers; and
- Supporting efficient markets that reward investment and providing the simplest solutions for customers.

Electricity Business in the Chinese Mainland

Financial Performance

Operating earnings from the Chinese mainland totalled HK\$2,131 million in 2013, an increase from HK\$1,411 million in 2012.

Earnings from our 25% stake in the Daya Bay Nuclear Power Station, 70% of the output from which serves our Hong Kong electricity business, remained steady in 2013.

Earnings from coal-fired projects increased by 89% as a result of lower coal prices, partially offset by a tariff reduction effective September 2013. Fangchenggang Power Station continues to be a significant earnings contributor. The performance of both CSEC Guohua and Shandong joint ventures also improved.

Earnings from renewable projects also rose due to higher generation, in particular Jiangbian Hydro, but partly offset by lower earnings from wind projects mainly due to lower subsidy in Shandong Province. Our first solar project in the Mainland, Jinchang, contributed earnings of HK\$20 million since commissioning in July 2013.

We have also made an impairment provision of HK\$297 million to the carrying values of CSEC Guohua and Shenmu reflecting our estimates of their recoverable amounts. The divestment of Boxing Biomass resulted in a loss of HK\$75 million.

Operational Performance

Business Environment

The Chinese economy witnessed a period of general slowdown in 2013. Reduced economic growth throughout the Mainland translated into weaker demand for the electricity market over the first half of the year. Additional demand from secondary and tertiary industries over the latter part of 2013 contributed to enhanced earnings for the Group. Overall, electricity demand grew 7.5% in 2013, a much lower growth rate, when compared to the double-digit increases of previous years.

Coal-fired power stations in the Mainland benefited from falling international and domestic coal prices. This was largely attributable to the slow recovery of the global economy and sluggish growth in the Mainland's domestic energy demand. Coal prices are expected to remain stable in 2014. In September 2013, the NDRC reduced the on-grid tariffs for coal-fired power stations, while increasing renewable energy subsidies available for clean energy power plants.

National tariff levels for wind remained stable throughout 2013. However, provincial subsidies in Shandong Province, where 14 of our wind farms are located, will be reduced by RMB0.03/kWh over the period 2013-2015 to RMB0.06/kWh.

In the solar sector, 2013 saw a national tariff policy being promulgated and implemented by the NDRC, dividing China into three tariff zones based on availability of solar resources. On-grid tariffs range from RMB0.90/kWh to RMB1.00/kWh. CLP is encouraged by the new policy and continues to actively seek investment opportunities in this sector.

Review and approval of nuclear projects at coastal sites resumed in 2013, following the State Council's approval of the National Plan for Nuclear Power Safety (2011-2020), the Nuclear Power Development (2011-2020) and the National Energy Development for the 12th Five-year Plan in October 2012.

Coal-fired Power Stations

CLP's coal-fired investments in the Mainland continued to perform reliably in 2013, buoyed by lower coal prices, high availability and stable utilisation.

Fangchenggang in Guangxi performed consistently well. Following the endorsement of the Environmental Impact Assessment Report for the construction of two additional 660MW ultra-supercritical units at Fangchenggang by the State Ministry of Environmental Protection, we submitted the final project verification to the NDRC in August 2013. We hope to receive the relevant approval in the first half of 2014, with full construction to commence as soon as the final consent is granted.

Renewables – Wind Energy

2013 saw an improved generation performance in our wind portfolio due to better wind resources in northeast China, with wind speed moving towards long-term averages. Despatch also increased as the connection of the new inter-provinces transmission network eased overall grid restrictions in the region. The wind resources at our portfolio in Shandong Province remained slightly below average.

Construction of our third wholly-owned wind farm, Laiwu Phase I (49.5MW) in Shandong commenced in early 2013 and is on track to achieve commercial operation in the first quarter of 2014, with all 33 wind turbines now installed. We also registered three wholly-owned wind projects for development with the National Energy Administration, namely Xundian Phase I in Yunnan, Laizhou Phase I in Shandong and Jiangshan Phase I in Zhejiang. While the first two projects are pending approval from the relevant provincial governments, we are still conducting wind measurement for Jiangshan Phase I. Each project will add 49.5MW to our existing portfolio.

Solar

In pursuing our business strategy of investing in solar projects with good energy resources and strong local power demand, we celebrated, in October 2013, the inauguration of CLP's first majority-owned solar project (85MW) in Jinchang in Gansu Province. Since commissioning in July 2013, Jinchang has achieved an output consistent with design specifications and has been performing satisfactorily.

We also received approval for a second solar project from the Yunnan Provincial Development and Reform Commission in November 2013 for Xicun Phase I (42MW). This project will be wholly-owned by CLP with construction to be commenced in the first quarter of 2014.

Hydro and Biomass

Generation in Dali Yang_er Hydro Power Station continued to suffer from lower-than-average rainfall. However, above-average rainfall at Huaiji in Guangdong Province and Jiangbian in Sichuan Province resulted in an increase in our hydro generation of around 7% and 26% respectively, compared to 2012.

In spite of our continuing efforts to improve the performance of our Boxing Biomass plant at Shandong, we continued to incur operating losses. On 26 September 2013, Shandong Boxing County Huanyu Paper Company Limited, our partner, exercised its pre-emptive right to acquire CLP's 79% interest in the project, with the transfer completed in November 2013. Given the difficulty in maintaining the long-term sustainability of this type of generation, we do not envisage or intend to pursue future investments in biomass energy projects in the Mainland.

Nuclear

Daya Bay achieved a utilisation rate of 86% in 2013, compared to 92% in 2012. This lower rate was due to the planned refuelling outages for both units in 2013. Daya Bay continues to maintain its longstanding safety record and its radiological releases into the environment are well within regulatory limits, without any adverse effect to nearby residents or the environment. Further safety measures, as required by the Mainland Government's comprehensive safety review of nuclear installations, were also implemented during the year. These included measures against natural hazards and additional emergency procedures against severe accidents.

As detailed in our announcement to shareholders dated 3 September 2013, discussions with China General Nuclear Power Corporation (CGNPC) on the acquisition of a 17% equity shareholding in the Yangjiang Nuclear Power Station project have discontinued. While these discussions have ceased, our long-term strategic partnership with CGNPC remains solid and enables us to explore future investment opportunities in the Mainland.

Environmental Performance

Air Emissions

The Mainland Government issued a new air pollutant emissions standard for existing thermal power plants which will be effective from 1 July 2014. To meet this standard, a Selective Catalytic Reduction (SCR) system is being retrofitted to Fangchenggang to reduce its NO_x emissions. Unit 1 of the SCR was commissioned in November 2013 and has successfully passed the local Environmental Protection Agency's inspection. Unit 2 is currently planned for commissioning in the first quarter of 2014.

Climate Adaptation

As part of a Group-wide initiative to assess how climate change will affect our operations, we extended the climate adaptation study in the Mainland from Fangchenggang to Jiangbian in 2013. Please refer to the “Natural Capital” section of the Annual Report and our 2013 Sustainability Report for additional details.

Environmental Regulatory Compliance

There were no fines or prosecutions arising from environmental-related regulatory non-compliances for our Mainland assets in which we had operational control in 2013.

In order to keep abreast of environmental regulatory developments and to maintain an up-to-date database of relevant regulations, CLP embarked on two separate projects in 2013. First, we collaborated with a Mainland law firm to assess the potential impact from environmental regulations to our Chinese business. Second, we established a comprehensive online environmental, health and safety database, which is regularly updated and accessible to our power generation facilities. The list includes national and provincial environmental regulations, as well as city-level environmental regulations relevant to each generation facility in our portfolio.

Outlook

In 2013, the sluggish global economy affected Chinese exports, resulting in a consolidation in the overall Chinese economy. The Government has also turned its attention to preserving the environment and the wider issue of global climate change by stepping up the evaluation of energy conservation, strengthening its environmental impact assessment and tightening land use scrutiny for new construction projects.

With the drawing up of the Development Plan for Renewable Energy during the “12th Five-year Plan” period, the Government has made it clear that it will continue to support the development of clean electricity generation in the form of renewable energy, nuclear power or more efficient coal-fired power plants, towards a more sustainable energy path. Given CLP’s own climate strategy to reduce the carbon intensity of our generation portfolio, we will continue to consolidate and rationalise the ownership of minority-owned coal-fired assets and to invest in renewable energy projects.

At The Third Plenary Session of the 18th Communist Party of China Central Committee held in Beijing last November, the Government announced the opening up of sectors that are currently dominated by state-owned enterprises to private companies. CLP will explore if there are any opportunities for us to expand in the market under this new policy.

In 2014, our major plans and activities include:

- Improving the environmental performance at Fangchenggang I;
- Obtaining final approval to proceed with the construction of Fangchenggang II;
- Reducing our positions in minority-owned coal-fired joint ventures if the opportunity to do so on commercially acceptable terms arises;
- Completing the commissioning and operation of the Laiwu Phase I wind project;
- Continuing final-stage development work for Xundian Phase I and Laizhou Phase I wind projects, as well as obtaining approval and commencing construction for Huadian Laizhou Phase II wind project;

- Maintaining high operational standards at the Jinchang solar project and exploring new investment opportunities for other solar power investments;
- Completing the construction of the Xicun Phase I solar project; and
- Continuing to capitalise on synergies with strategic partner to explore opportunities for further participation in the ongoing development of the Mainland's nuclear energy generating capacity.

Beyond 2014 we intend to:

- complete the construction of the Fangchenggang II project;
- pursue divestment of CLP's interest in minority-owned coal-fired joint ventures;
- explore further participation in the ongoing growth of the Mainland's nuclear energy generating capacity;
- maintain a development pipeline of viable wholly-owned wind and solar projects; and
- explore investment opportunities in other renewable energy projects, especially small to medium size hydro projects.

Electricity Business in India

Financial Performance

The financial performance of CLP India improved in 2013 with operating earnings of HK\$184 million, compared to a loss of HK\$182 million in 2012. On the back of improved coal supply in the second half of the year, operating loss from Jhajjar was reduced. This was, however, offset by exchange loss on U.S. dollar loans of Jhajjar and lower earnings from Paguthan, the despatch of which was constrained by gas shortages.

In addition, an impairment provision for Paguthan's finance lease receivables of HK\$293 million was made. This was due to the renegotiation of the Power Purchase Agreement (PPA) as a result of long-term gas supply issues (HK\$101 million) and a lower estimate of the plant's residual value at the end of the PPA (HK\$192 million).

Operational Performance

Business Environment

It has been a challenging year for the Indian economy. Inflation and interest rates remained high, and GDP growth for India's fiscal year from April 2013 to March 2014 is forecast to be a relatively modest 4.8%. High fiscal and current account deficits, combined with concerns about the Federal Reserve's potential tapering, resulted in a significant depreciation of the Rupee during the year. Some stability was restored following the appointment of a highly respected economist as the new Governor of the Reserve Bank of India in September. There remains some hope that the upcoming national elections in May 2014 will provide some political clarity as well as momentum for various needed economic reforms.

In the power sector, fuel supply has been an industry-wide problem. The Indian Government has taken action to address a number of unresolved matters, including issuing guidelines that will ultimately allow coal-fired power plants to import coal to meet fuel demand, and introducing measures to improve domestic coal production. For future projects, new bidding guidelines have been implemented, providing developers with greater flexibility in sourcing alternate imported fuels, and clarifying the cost pass-through of fuel to consumers. From a risk perspective, however, these guidelines appear to favour off-takers over generators, who will be required to assume all liabilities of a project but not ownership.

Notwithstanding the measures taken by the Government, affordable domestic gas supply and allocation in India remains problematic. While the Government has recently accepted a new domestic gas pricing formula to encourage investments in the upstream sector, supplies are unlikely to improve sharply in the foreseeable future due to limited gas resources. At the same time, discussions have been initiated by the Government on the development of a regulatory regime to enhance utilisation of peaking power stations. While CLP India is monitoring these developments, we believe these will take some time to be finalised.

Private developers are also facing greater barriers to entry following the introduction of the new Land Acquisition Act which sharply increases the lead time and costs of land acquisition. Notably, both our assets at Paguthan and Jhajjar already own the requisite land, which can be utilised for future expansions.

Operational Performance

There has been a significant improvement in the generation performance of Jhajjar, with both units of our coal-fired power station being able to operate on a near base load basis from June 2013 – the first time since commissioning in July 2012.

Challenges faced by Jhajjar arising from shortages of domestic coal were mitigated with approval from its off-takers to burn imported coal, initially at 15%, and subsequently at 35%. The plant's operations have also been stabilised and we have overcome initial technical challenges of burning a higher proportion of imported coal in the boilers, which were initially designed to burn domestic coal. Domestic coal supply has also improved in terms of quantity and quality. As a consequence of this, plant commercial availability has improved markedly to 86.7% in the second half of 2013, up from 38.7% in the first half, taking annual availability to 62.8%.

Generation at our gas-fired plant in Paguthan in Gujarat has fallen to 5% due to domestic natural gas shortages. Production from our principal domestic source (KGD-6 basin) has fallen drastically since March 2013. Paguthan continues to make the units available to secure its capacity payments under the PPA mainly on alternative but more expensive fuel sources through the truncated domestic gas supplies from Cairn Energy and spot re-gassified LNG. Paguthan's availability has been high at 96%, while despatches continue to remain very low. Given domestic gas allocations are predicated on the Indian Government's "Gas Utilisation Policy", wherein the fertiliser sector is accorded precedence over electricity, securing adequate, reliable and reasonably-priced domestic gas supplies in the near term remains a challenge.

As indicated in our Interim Report, the current PPA protects Paguthan's revenue as long as the power plant is available for despatch. The plant's off-taker Gujarat Urja Vikas Nigam Limited (GUVNL) had requested a reduction in fixed charges under the PPA as it could only afford to purchase negligible amounts of power from Paguthan. We recently reached agreement with GUVNL to revise the terms of the PPA.

Separately, in November 2013, Gujarat Electricity Regulatory Commission ruled in favour of our claims against the off-taker, on certain disputed items relating to availability and interest on working capital. We are continuing to pursue discussions with GUVNL over this.

Wind

In 2013, our operating wind farm projects grew to 628.2MW, up from 521MW a year ago. Sipla, Bhakrani Phase I and Mahidad Phase I achieved full commissioning on schedule while Bhakrani Phase II and Mahidad Phase II remain partially commissioned. Despite grid constraints and lower machine availability at some of the wind farms, performance of our fully operational projects has been within our expectations. Construction for our two new projects, Yermala (148.8MW) and Jath (130MW) has also commenced. Upon completion of our committed projects, we will further strengthen our current position as India's largest private sector investor and wind energy producer with an operating portfolio of over 1,000MW.

On the financial side, the Generation Based Incentive (GBI) for wind energy, which expired in March 2012, has now been reinstated with an enhanced cap. Wind projects commissioned during the 12th Five-Year Plan from 2012 to 2017 will now receive a GBI of Rs.0.5 per unit of electricity fed into the grid, with a cap of Rs.10 million per MW, up from Rs.6.2 million per MW previously. This will benefit almost all of our wind investments. Separately, the receivable position of the Theni I & Theni II projects have shown significant improvement with all overdue payments received during the course of 2013.

To boost the growth of our wind portfolio, we signed a “pooled financing” agreement with three financial institutions for our wind assets in September 2013. Such innovative financial structure helps mitigate risks arising out of the unpredictable nature of wind assets' output and has the added advantage of enhancing CLP India's ability to attract new lenders to fund future growth.

Environmental Performance

Emissions

Air emissions levels from our two fossil fuel-based power plants at Jhajjar and Paguthan were relatively low in 2013 as they grappled with fuel supply issues. However, Jhajjar has since made progress on its coal supply matter and so electricity generation and hence emissions levels, were higher in the later part of 2013, and overall higher compared to 2012. The emissions levels are expected to even be higher in 2014 when operating conditions further stabilise. The emissions levels at Paguthan are also expected to increase back to normal levels once the gas supply issue is resolved, although that is not expected to be any time soon.

Climate Change

Our wind portfolio capacity in India has now surpassed the 1,000MW milestone – significantly strengthening our lead in the wind energy sector, and helping CLP move closer to our next renewable energy target in 2020. While we continue to build our renewable energy portfolio in India and expect sustained growth of this business over the next few years, we believe it was important to exercise some effort in assessing how climate change will affect these operations. In 2013, we commissioned a climate adaptation assessment for two of our wind farms, namely Harapanahalli and Saundatti, to glean any insights into what CLP should or could do in order to protect these assets where needed and perhaps how to site, design and build them to be more resilient to such impacts. Please refer to our Sustainability Report for more details.

Biodiversity

Paguthan has been conserving and encouraging a rich and vibrant range of biodiversity in its plant and township estate. These include a wide range of flora and fauna, almost 70 varieties of migratory birds and insects. We documented these in a coffee table book titled “Living with the Green” published locally in India.

Environmental Regulatory Compliance

There were no fines or prosecutions arising from environmental-related regulatory non-compliances for any of our Indian assets in which we had operational control in 2013.

Outlook

The large gap between demand and supply spells strong long-term opportunities for investors and developers. We continue to see attractive investment opportunities in renewables, particularly wind and solar. In saying this, there remain a number of important matters – which will need continued focus from the Government of India. These include the lack of available fuel supplies (including coal and gas), the financial health of distribution companies and the time-consuming processes for obtaining environmental clearances for new projects. The Rupee faces continuous challenges along with Quantitative Easing (QE) tapering and concern about emerging markets performance, the Reserve Bank of India will need to implement sound financial policies in order for the economy to deliver meaningful growth.

We anticipate the slowdown in new capacity addition will continue for some time. While policy makers have introduced a range of vital measures to address some of these challenges, sustained intervention will be needed to assist in reviving investors’ confidence. The outlook for the renewables sector, on the other hand, continues to look promising.

For 2014, CLP India will focus on:

- Moving Jhajjar towards a long-term and sustainable financial viability by establishing a framework for the procurement of the requisite coal quantities through engagement with the Indian Government and other stakeholders while improving efficiency and reducing costs;
- Continuing longstanding efforts to secure adequate, reliable and reasonably-priced gas supplies for Paguthan;
- Maintaining steady growth of our wind energy business, including the construction and commissioning of our new projects so as to retain and strengthen our leadership position in the sector; and
- Monitoring conventional power opportunities, including exploring and evaluating potential new investment opportunities.

Beyond 2014, we will:

- Consider diversification of our portfolio by continuing to grow in renewables, conventional and small to medium scale “run of river” hydro and solar projects. These projects will be judged on a selective basis and expansion will depend on addressing critical issues, including land acquisition, technology reliability and a supportive tariff structure; and
- Pursue the strategy of moving CLP India to a “self-financing” status through alternative fund-raising options.

Electricity Business in Southeast Asia and Taiwan

Financial Performance

The operating earnings from our investments in Southeast Asia and Taiwan in 2013 remained stable at HK\$241 million. Lower earnings from Ho-Ping Power Company (Ho-Ping) were mainly due to a HK\$60 million provision for a penalty imposed by the Taiwan Fair Trade Commission (FTC), lower generation due to a planned overhaul and reduction in capacity charge revenue which was partially offset by lower coal prices. The decrease in earnings was compensated by higher earnings from Lopburi solar project (Lopburi), of which an 8MW expansion was completed in May 2013.

Operational Performance

Since 2011, CLP has made the strategic decision to focus on our existing investments and development projects in Southeast Asia and Taiwan, including the operating Ho-Ping project in Taiwan, Lopburi in Thailand, and the Vung Ang II and Vinh Tan III projects under development in Vietnam.

Ho-Ping, in which CLP has a 20% shareholding, achieved another year of solid operational performance in 2013 with high despatch. Following years of increased pressure by the state-owned off-taker Taiwan Power Company (Taipower), Ho-Ping agreed to reduce tariffs under its long-term PPA. This tariff reduction was agreed following Ho-Ping's appeal against a penalty levied by the FTC of NT\$1.35 billion (HK\$351 million, CLP's share was about HK\$62 million, net of tax) for alleged concerted action with other independent power producers (IPP), in violation of the Fair Trade Act. While the Executive Yuan (EY), the executive branch of the Taiwan Government, upheld the penalty decision, it did ask the FTC to reconsider the amount and a marginal reduction to NT\$1.32 billion (HK\$343 million) was levied. To protect its legal rights, Ho-Ping subsequently filed an administrative litigation to the Taipei High Administrative Court against the FTC's decision and has issued a further administrative appeal to the EY regarding the revised FTC penalty. The appeal processes and court proceedings are expected to take some time to settle.

In Thailand, an 8MW expansion of Lopburi was completed, increasing its total capacity to 63MW. Developed by Natural Energy Development Co., Ltd. (NED), of which CLP holds a 33% share, Lopburi is the first utility scale solar project in our portfolio. CLP provided management, leadership and technical support for the development, construction and operation of the project, which achieved good operational and safety performance during 2013.

In Vietnam, the Vung Ang II coal-fired project awaits the Government's final decision on the acceptance of the key project documents, including the PPA, build-operate-transfer contract and government guarantees, which have been extensively negotiated. Contracts for equipment supply, construction, and coal supply and transportation have now largely been settled and discussions with potential lenders have commenced.

Development work on our second Vietnam project, Vinh Tan III project, has also been progressing. Contractors for equipment supply and construction have been selected and negotiations with the Vietnamese Government on the PPA and build-operate-transfer contract are continuing.

Environmental Performance

Ho-Ping's Coal Consumption Limit Litigation

As explained in our 2012 Annual Report, Ho-Ping was fined NT\$442 million (HK\$116 million) for exceeding the coal consumption limit stipulated in its environmental impact assessment report for 2009 and 2010. Ho-Ping's subsequent legal appeals on the fines have been successful, with the Taipei High Administrative Court ruling that the Hualien County Government should not replace a smaller fine (NT\$100,000) related to the 2009 exceedance with a higher penalty. The court also requested that the Government reconsider an appropriate fine for the 2010 exceedance. The Government had filed further appeals to the Supreme Administrative Court and Ho-Ping will continue to pursue and defend its position.

Environmental Regulatory Compliance

There were no environmental-related regulatory non-compliances for any of our Southeast Asian assets in 2013.

Outlook

Taiwan is currently at a crossroads in revising its energy policy, and debates on the abandonment of nuclear power, fossil fuel versus renewable energy, new mechanisms to cap greenhouse gas emissions and whether the true costs of energy should be passed through to end-users are all continuing. While there are positive signs from Government ministries about opening up the electricity market, it is doubtful that there will be substantial progress on these issues in the near term.

In Thailand, a further round of bidding for the independent power producer scheme was completed at the end of 2013 and further bidding is not expected for some years. Growth opportunities in the renewable sector remain, however, we do not currently contemplate expanding beyond our existing investment in NED.

By the end of 2013, Vietnam appeared to have restored its macroeconomic stability, which was underpinned by modest GDP growth, moderate inflation and strengthening external accounts. Nonetheless, critical risks remain, including low foreign currency reserves, fragile private sector demand and a weak banking sector. Against this backdrop, we believe the IPP market in Vietnam will develop at a measured pace, with the Government providing support and guarantees to a limited number of projects with competitive tariffs. In these circumstances, we will continue to develop the two projects in Vietnam with the clear objectives of maintaining competitive tariffs, robust project structures, as well as selecting strong and competitive suppliers of equipment, fuel and finance. However, we do not contemplate further expansion of our business in this market.

In retaining our focus on our existing business and opportunities in Southeast Asia and Taiwan, our key tasks include:

- maintaining safe and reliable operation at Ho-Ping Power Station and Lopburi;
- seeking to resolve Ho-Ping's appeals and administrative litigation on the FTC penalty satisfactorily; and
- finalising negotiations with the Vietnamese Government on the key project agreements for the Vung Ang II and Vinh Tan III projects.

Safety

Our business demands the highest attention to safety - year in, year out; day in, day out. Safety is, and remains our absolute and number one priority. We have said this in previous Annual Reports, and we will continue to say it again – electricity takes no prisoners. Nothing we can do for our colleagues compares with the importance of our duty to do our utmost to ensure that they go home safely from work every day.

This responsibility extends not only to our employees, but also to the staff of our contractors and to everyone who legitimately comes into our facilities. Our business would not survive if we overlook the safety of those who work within it. The CLP Group is committed to delivering world class safety performance and seeking continuous improvement in its safety systems with a long-term goal of zero injuries.

Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR) are industry standards for measuring safety performance. They refer to the number of lost time injuries (LTIs) or recordable injuries measured over 200,000 working hours of exposure, which generally equates to around 100 employees or contractors working for one year.

The overall LTIR in 2013 (0.16) was higher than 2012 (0.14), partly due to three incidents at Jhajjar in India – two multiple LTIs and a fatality that involved a contractor working overnight. To determine the cause of the fatal accident and prevent re-occurrence, an investigation was completed by an independent panel, which subsequently proposed a range of improvement measures. CLP has adopted all the recommendations. In addition, we also engaged NOSA, the internationally recognised health and safety consultant, to conduct a NOSA 5 star safety training at Jhajjar and to assist Jhajjar in improving its safety performance.

Partly as a result of the two multiple LTIs mentioned above, 33 LTIs were recorded across the Group in 2013, up from 29 in 2012. LTIR increased 14% from 0.14 in 2012 to 0.16 in 2013, indicating a higher number of serious injuries reported across the Group. This rising trend is of concern and we are addressing it through the introduction of a NOSA auditing process at Jhajjar in the fourth quarter of 2013 and planned implementation in 2014 of a set of 10 Critical Risk Standards, which has been developed to specify the minimum level of safety across all CLP power stations in different countries.

The TRIR of 0.39 achieved in 2013 was slightly lower than 2012's 0.4, meaning the total number of injuries reported was similar to a year ago. However, both the LTIR and TRIR for Hong Kong showed a marked improvement following implementation of life saving rules and continuous engagement with contractors on safety issues.

Human Resources

On 31 December 2013, the Group employed 6,968 staff (2012: 6,581), of whom 4,180 were employed in the Hong Kong electricity and related business, 2,537 by our businesses in Australia, Chinese mainland, India, and Southeast Asia and Taiwan, as well as 251 by CLP Holdings. Total remuneration for the year ended 31 December 2013 was HK\$4,436 million (2012: HK\$4,345 million), including retirement benefits costs of HK\$407 million (2012: HK\$318 million).

FINANCIAL INFORMATION

The financial information set out in this announcement below does not constitute the Group's statutory accounts for the year ended 31 December 2013, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee, approved by the Board and agreed by the Group's external auditors, PricewaterhouseCoopers.

Consolidated Statement of Profit or Loss *for the year ended 31 December 2013*

	Note	2013 HK\$M	2012 HK\$M
Revenue	4	104,530	104,861
Expenses			
Purchases of electricity, gas and distribution services		(49,040)	(50,760)
Operating lease and lease service payments		(12,963)	(13,362)
Staff expenses		(3,017)	(2,935)
Fuel and other operating expenses		(23,763)	(17,682)
Depreciation and amortisation		(7,592)	(7,021)
		<u>(96,375)</u>	<u>(91,760)</u>
Other income	6	<u>751</u>	-
Operating profit	7	8,906	13,101
Finance costs		(6,522)	(6,423)
Finance income		173	322
Share of results, net of income tax			
Joint ventures	8	2,671	2,405
An associate		<u>612</u>	<u>579</u>
Profit before income tax		5,840	9,984
Income tax credit/(expense)	9	<u>232</u>	<u>(1,692)</u>
Profit for the year		6,072	8,292
Earnings attributable to:			
Shareholders		6,060	8,312
Non-controlling interests		<u>12</u>	<u>(20)</u>
		6,072	8,292
Dividends	10		
First to third interim dividends paid		4,017	3,825
Fourth interim dividend declared		<u>2,476</u>	<u>2,476</u>
		6,493	6,301
Earnings per share, basic and diluted	11	HK\$2.40	HK\$3.45

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2013

	2013 HK\$M	2012 HK\$M
Profit for the year	<u>6,072</u>	<u>8,292</u>
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	(5,774)	626
Cash flow hedges	128	(501)
Fair value changes on available-for-sale investments	10	4
Reclassification adjustment upon sale of a subsidiary	(8)	-
Share of other comprehensive income of joint ventures	9	6
	<u>(5,635)</u>	<u>135</u>
Items that cannot be reclassified to profit or loss		
Fair value gain on revaluation upon transfer from fixed asset to investment property	2,055	-
Share of other comprehensive income of joint ventures	250	1
	<u>2,305</u>	<u>1</u>
Other comprehensive income for the year, net of tax	<u>(3,330)</u>	<u>136</u>
Total comprehensive income for the year	<u>2,742</u>	<u>8,428</u>
Total comprehensive income attributable to:		
Shareholders	2,727	8,447
Non-controlling interests	15	(19)
	<u>2,742</u>	<u>8,428</u>

Consolidated Statement of Financial Position
as at 31 December 2013

	Note	2013 HK\$M	2012 HK\$M
Non-current assets			
Fixed assets	12(A)	126,876	132,463
Leasehold land and land use rights under operating leases	12(B)	1,806	1,866
Investment property	12(C)	2,221	-
Goodwill and other intangible assets		23,847	28,479
Interests in joint ventures		19,940	19,197
Interest in an associate		1,675	1,856
Finance lease receivables		989	1,665
Deferred tax assets		3,084	1,025
Fuel clause account		-	337
Derivative financial instruments		3,118	3,285
Available-for-sale investments		1,263	1,289
Other non-current assets		147	141
		<u>184,966</u>	<u>191,603</u>
Current assets			
Inventories – stores and fuel		1,482	1,667
Renewable energy certificates		997	1,991
Trade and other receivables	13	17,953	18,552
Finance lease receivables		49	158
Derivative financial instruments		1,005	1,759
Bank balances, cash and other liquid funds		5,233	13,026
		<u>26,719</u>	<u>37,153</u>
Current liabilities			
Customers' deposits		(4,506)	(4,420)
Trade and other payables	14	(19,325)	(21,732)
Income tax payable		(141)	(233)
Bank loans and other borrowings	15	(7,118)	(6,895)
Obligations under finance leases		(2,763)	(2,406)
Derivative financial instruments		(1,279)	(1,762)
		<u>(35,132)</u>	<u>(37,448)</u>
Net current liabilities		<u>(8,413)</u>	<u>(295)</u>
Total assets less current liabilities		<u>176,553</u>	<u>191,308</u>
Financed by:			
Equity			
Share capital		12,632	12,632
Share premium		8,119	8,119
Reserves	17		
Declared dividends		2,476	2,476
Others		64,134	67,900
Shareholders' funds		<u>87,361</u>	<u>91,127</u>
Non-controlling interests		120	74
		<u>87,481</u>	<u>91,201</u>
Non-current liabilities			
Bank loans and other borrowings	15	48,933	59,303
Obligations under finance leases		25,213	24,649
Deferred tax liabilities		8,548	8,370
Derivative financial instruments		3,440	4,084
Fuel clause account		1,464	-
Scheme of Control (SoC) reserve accounts	16	28	1,245
Other non-current liabilities		1,446	2,456
		<u>89,072</u>	<u>100,107</u>
Equity and non-current liabilities		<u>176,553</u>	<u>191,308</u>

1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are the generation and supply of electricity in Hong Kong, Australia and India, and investment holding of power projects in the Chinese mainland, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiary, CLP Power Hong Kong Limited (CLP Power Hong Kong), and its joint venture, Castle Peak Power Company Limited (CAPCO), are governed by a SoC entered with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

2. Changes in accounting policies

The Group has adopted the following new standards, amendments to standards and interpretations effective 1 January 2013 for the first time for the financial year beginning on 1 January 2013:

- Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to HKFRS 10, HKFRS 11 and HKFRS 12)
- Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to HKFRS 2009-2011 Cycle
- HKFRS 10 Consolidated Financial Statements
- HKFRS 11 Joint Arrangements
- HKFRS 12 Disclosure of Interests in Other Entities
- HKFRS 13 Fair Value Measurement
- HKAS 19 (2011) Employee Benefits
- HKAS 27 (2011) Separate Financial Statements
- HKAS 28 (2011) Investments in Associates and Joint Ventures
- HK(IFRIC)-Int 20 Stripping Costs in the Production Phase of a Surface Mine

The adoption of these new standards, amendments to standards and interpretations has not had any implication for the Group's accounting policies applied in these consolidated financial statements except for below:

HKFRS 10 Consolidated Financial Statements provides additional guidance on the determination of control. Under HKFRS 10, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has applied HKFRS 10 retrospectively in accordance with the standard which had no significant impact on the results and financial position of the Group.

2. Changes in accounting policies (continued)

HKFRS 11 Joint Arrangements classifies joint arrangements as either joint operations or joint ventures. The determination of whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement and the existence of a separate legal vehicle is no longer a key factor. The Group has applied HKFRS 11 retrospectively in accordance with the standard which has no significant impact on the results and financial position of the Group.

HKFRS 13 Fair Value Measurements defines fair value and provides a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements do not extend the use of fair value accounting. The Group has applied the new fair value measurement and disclosure requirements prospectively in accordance with the standard.

3. Business Combination

On 2 September 2013 the Group completed the acquisitions of the Mount Piper Power Station (Mount Piper) and the Wallerawang Power Station (Wallerawang) (both located in New South Wales (NSW), Australia) that underpin the existing Delta Western GenTrader contracts. Mount Piper is a 1,400MW power station comprising two 700MW black coal-fired steam turbine generators. Wallerawang is a 1,000MW power station comprising two 500MW black coal-fired generating units.

Under the terms of the Mount Piper GenTrader contract, it was determined that the Group had control over the underlying generation assets at Mount Piper and as a result recognised them as a finance lease. The Wallerawang GenTrader contract was accounted for as deferred consideration as the estimated unavoidable costs of meeting the obligations under the contract exceeding the economic benefits expected to be received under it.

These acquisitions are therefore incremental to the initial GenTrader contracts, whereby the consideration paid relates to net assets of Mount Piper and Wallerawang which were not previously controlled. These include deferred tax assets arising upon the transfer of legal title of tax bases, and other working capital related balances. The acquisitions have resulted in the Group being released from any committed expenditure to Delta Electricity under the terms of the GenTrader contracts.

The net cash consideration for the acquisitions is HK\$954 million (A\$138 million). The following table summarises the consideration paid and the incremental assets acquired and liabilities assumed:

	HK\$M
Cash paid to vendor	1,089
Less: stamp duty paid through vendor	(135)
Cash consideration ^(a)	<u>954</u>
Less:	
Recognised amounts of identifiable assets acquired and liabilities assumed	
Fixed assets	79
Deferred tax assets	1,185
Other current assets	80
Trade and other payables	(266)
Total identifiable net assets acquired	<u>1,078</u>
Release of deferred consideration payable to vendor with respect to the Wallerawang GenTrader contract ^(b)	<u>627</u>
Gain on bargain purchase ^(c)	<u>(751)</u>

Acquisition-related costs charged to profit or loss (included in fuel and other operating expenses) totalled HK\$158 million (HK\$151 million after tax), which comprised stamp duty of HK\$135 million and other costs of HK\$23 million (HK\$16 million after tax).

3. Business Combination (continued)

Notes:

- (a) The cash paid was HK\$1,089 million (A\$157 million), being HK\$1,111 million (A\$160 million) consideration paid less working capital completion amount subsequently received of HK\$22 million (A\$3 million). This cash paid included stamp duty of HK\$135 million (A\$19 million) paid through vendor as part of the purchase price.
- (b) A deferred consideration liability with respect to Wallerawang of HK\$627 million (A\$90 million) (net of deferred tax of HK\$269 million (A\$39 million)) existed at 31 August 2013. The acquisition has resulted in the Group being released from any committed expenditure to Delta Electricity in relation to this amount under the terms of the GenTrader contract. The deferred consideration liability was deemed to be at fair value.
- (c) The gain on bargain purchase of HK\$751 million (A\$108 million) (HK\$600 million (A\$87 million) after acquisition-related costs and tax) was recognised in profit or loss and presented in other income. It has been recognised as the consideration paid is less than the fair value of the identifiable net assets acquired. This was mainly due to the recognition of deferred tax assets of HK\$1,185 million (A\$171 million) related to the acquisition of tax bases underpinning both power stations, originally acquired the right to use under the GenTrader contracts.

The revenue and loss before income tax included in the consolidated statement of profit or loss from September 2013 to December 2013 contributed by the acquisitions were HK\$1,572 million (A\$221 million) and HK\$240 million (A\$34 million) respectively. As the Group had the rights to the assets under the GenTrader contracts, it is not possible to quantify the revenue and profit or loss which would have derived from them had they been consolidated from 1 January 2013.

4. Revenue

An analysis of the Group's revenue is as follows:

	2013 HK\$M	2012 HK\$M
Sales of electricity	88,555	91,351
Sales of gas	8,388	9,256
Lease service income under Power Purchase Agreement (PPA)	626	1,454
Finance lease income under PPA	252	287
Operating lease income under PPA	2,778	742
Other revenue ^(a)	3,290	2,075
	103,889	105,165
Transfer for SoC to/(from) revenue ^(b)	641	(304)
	104,530	104,861

Notes:

- (a) Including carbon compensation in the form of cash assistance and free carbon units totalling HK\$1,923 million (A\$259 million) (2012: HK\$1,035 million (A\$129 million)) received by EnergyAustralia Holdings Limited (EnergyAustralia) under the Energy Security Fund with respect to Yallourn Power Station. The compensation received was recognised as revenue over the relevant period on a systematic basis.
- (b) Under the SoC, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund under the SoC. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss.

5. Segment Information

The Group operates, through its subsidiaries, joint ventures, joint operation and associate, in five major geographical regions – Hong Kong, Australia, the Chinese mainland, India, and Southeast Asia and Taiwan. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions. Substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

Information about the Group's operations by geographical region is as follows:

	Hong Kong HK\$M	Australia HK\$M	Chinese Mainland HK\$M	India HK\$M	Southeast Asia & Taiwan HK\$M	Unallocated Items HK\$M	Total HK\$M
For year ended 31 December 2013							
Revenue	34,172	64,976	991	4,371	14	6	104,530
Operating profit/(loss)	10,439	(2,181)	407	690	(26)	(423)	8,906
Finance costs	(3,685)	(1,620)	(205)	(957)	-	(55)	(6,522)
Finance income	11	44	4	80	5	29	173
Share of results, net of income tax							
Joint ventures	1,235	(14)	1,188 ^(a)	-	262	-	2,671
An associate	-	-	612 ^(a)	-	-	-	612
Profit/(loss) before income tax	8,000	(3,771)	2,006	(187)	241	(449)	5,840
Income tax credit/(expense)	(1,010)	1,315	(151)	78	-	-	232
Profit/(loss) for the year	6,990	(2,456)	1,855	(109)	241	(449)	6,072
Earnings attributable to non-controlling interests	-	-	(12)	-	-	-	(12)
Earnings/(loss) attributable to shareholders	6,990	(2,456) ^(b)	1,843	(109)	241	(449)	6,060
Capital additions	9,292	2,139	483	1,243	-	39	13,196
Depreciation and amortisation	4,412	2,506	213	424	-	37	7,592
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	-	3,862	38	-	-	-	3,900
Interests in joint ventures	-	-	297	-	-	-	297
Receivables and others	-	1,670	3	716	-	-	2,389
At 31 December 2013							
Fixed assets	93,782	15,889	5,405	11,628	-	172	126,876
Goodwill and other intangible assets	-	23,778	40	29	-	-	23,847
Interests in joint ventures	9,478	324	8,349	-	1,789	-	19,940
Interest in an associate	-	-	1,675	-	-	-	1,675
Deferred tax assets	-	3,021	60	3	-	-	3,084
Other assets	10,044	15,702	3,177	5,443	87	1,810	36,263
Total assets	113,304	58,714	18,706	17,103	1,876	1,982	211,685
Bank loans and other borrowings	28,293	14,406	3,457	8,479	-	1,416	56,051
Current and deferred tax liabilities	8,193	-	188	308	-	-	8,689
Obligations under finance leases	27,947	29	-	-	-	-	27,976
Other liabilities	13,768	15,708	400	1,426	3	183	31,488
Total liabilities	78,201	30,143	4,045	10,213	3	1,599	124,204

5. Segment Information (continued)

	Hong Kong HK\$M	Australia HK\$M	Chinese Mainland HK\$M	India HK\$M	Southeast Asia & Taiwan HK\$M	Unallocated Items HK\$M	Total HK\$M
<i>For year ended 31 December 2012</i>							
Revenue	33,873	66,843	943	3,178	19	5	104,861
Operating profit/(loss)	10,154	2,941	220	300	(24)	(490)	13,101
Finance costs	(3,565)	(1,843)	(213)	(709)	-	(93)	(6,423)
Finance income	8	208	5	77	5	19	322
Share of results, net of income tax							
Joint ventures	1,253	(8)	898 ^(a)	-	262	-	2,405
Associates	-	-	579 ^(a)	-	-	-	579
Profit/(loss) before income tax	7,850	1,298	1,489	(332)	243	(564)	9,984
Income tax expense	(1,117)	(298)	(112)	(165)	-	-	(1,692)
Profit/(loss) for the year	6,733	1,000	1,377	(497)	243	(564)	8,292
Loss attributable to non-controlling interests	-	-	20	-	-	-	20
Earnings/(loss) attributable to shareholders	6,733	1,000 ^(b)	1,397	(497)	243	(564)	8,312
Capital additions	7,571	2,582	100	1,935	-	93	12,281
Depreciation and amortisation	4,068	2,357	209	355	-	32	7,021
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	-	89	119	350	-	-	558
Interests in joint ventures	-	-	-	-	-	-	-
Receivables and others	-	780	-	64	-	-	844
<i>At 31 December 2012</i>							
Fixed assets	89,393	25,659	5,001	12,239	-	171	132,463
Goodwill and other intangible assets	-	28,408	39	32	-	-	28,479
Interests in joint ventures	9,294	99	8,049	-	1,755	-	19,197
Interest in an associate	-	-	1,856	-	-	-	1,856
Deferred tax assets	-	964	61	-	-	-	1,025
Other assets	12,847	18,781	2,861	7,148	77	4,022	45,736
Total assets	111,534	73,911	17,867	19,419	1,832	4,193	228,756
Bank loans and other borrowings	33,435	16,618	3,367	9,878	-	2,900	66,198
Current and deferred tax liabilities	7,852	-	176	575	-	-	8,603
Obligations under finance leases	26,987	68	-	-	-	-	27,055
Other liabilities	12,204	21,297	300	1,663	4	231	35,699
Total liabilities	80,478	37,983	3,843	12,116	4	3,131	137,555

Notes:

- (a) Out of the total amount of HK\$1,800 million (2012: HK\$1,477 million), HK\$696 million (2012: HK\$659 million) was attributed to investments in Guangdong Nuclear Power Joint Venture Company, Limited and Hong Kong Pumped Storage Development Company, Limited (PSDC), whose generating facilities serve Hong Kong.
- (b) Excluding the one-off items from Australia of a post-tax loss of HK\$2,582 million (2012: HK\$685 million), the operating earnings of Australia were HK\$126 million (2012: HK\$1,685 million).

6. Other income

	2013 HK\$M	2012 HK\$M
Gain on bargain purchase of Mount Piper and Wallerawang (Note 3)	<u>751</u>	<u>-</u>

7. Operating Profit

Operating profit is stated after charging/(crediting) the following:

	2013 HK\$M	2012 HK\$M
Charging		
Staff costs		
Salaries and other costs	2,715	2,725
Retirement benefits costs ^(a)	302	210
Auditor's remuneration		
Audit	34	39
Permissible non-audit services ^(b)	12	20
Operating lease expenditure on the agreement with Ecogen	311	331
Net loss on disposal of fixed assets	173	151
Loss on disposal of Boxing Biomass ^(c)	23	-
Yallourn mine flooding	110	1,129
Impairment of*		
Fixed assets and leasehold land and land use rights under operating leases	150	558
Other intangible assets	176	41
Finance lease receivables ^(d)	519	-
Impairment and other provisions for EnergyAustralia's generation assets ^(e)	4,437	-
Net fair value (gain)/loss on derivative financial instruments		
Cash flow hedges, reclassified from equity to		
Purchases of electricity, gas and distribution services	(437)	(402)
Fuel and other operating expenses	(201)	(99)
Transactions not qualifying as hedges	(91)	570
Ineffectiveness of cash flow hedges	(1)	(74)
Net exchange (gain)/loss	<u>(73)</u>	<u>50</u>
Crediting		
Gain on sale of interest in Waterloo ^(f)	(24)	-
Net rental income from properties	<u>(7)</u>	<u>(13)</u>

* Excluding the impairment of EnergyAustralia's generation assets detailed in note (e) below.

Notes:

- (a) The retirement benefit plans for staff employed by the Group entities in Hong Kong are regarded as defined contribution schemes. The current scheme, CLP Group Provident Fund Scheme (GPFS), provides benefits linked to contributions and investment returns on the scheme. Contributions paid to defined contribution schemes, including GPFS and Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, totalled HK\$218 million (2012: HK\$214 million), of which HK\$62 million (2012: HK\$63 million) was capitalised.

Staff employed by the Group entities outside Hong Kong are primarily covered by defined contribution schemes in accordance with local legislation and practices. Total contributions amounted to HK\$189 million (2012: HK\$104 million).

- (b) Permissible non-audit services comprise accounting/tax advisory services for business development, auditor's attestation, system reviews and capital market assurance services.

7. Operating Profit (continued)

Notes (continued):

- (c) In November 2013, the Group transferred its entire 79% interest in Boxing Biomass to its joint venture partner for nil consideration. Together with provisions for various assets before the transfer, total loss from the divestment amounted to HK\$75 million (2012: nil).
- (d) Owing to shortage in long-term gas supply, the Paguthan Plant (Paguthan)'s dispatches continue to be very low. As a result, Gujarat Urja Vikas Nigam Limited (GUVNL) has requested to revise certain terms of the PPA during the year and a supplementary agreement was subsequently signed in February 2014. In addition, Paguthan's residual value at the end of the PPA in 2018 has been reassessed. Taking into account the anticipated reduction in future cash flows, an impairment provision of HK\$519 million (after tax: HK\$293 million) (2012: nil) was recognised.
- (e) During the current year the Group's view of the Australian energy sector has changed. This change has been driven by the continuation of certain trends, particularly in relation to wholesale electricity prices, that began several years ago. The key impacts from these changes include the following:
- Sharp increases in retail prices and the uptake of rooftop photovoltaic and energy efficiency products and services on the back of government-based subsidies over the last four years have changed energy consumption patterns;
 - A change in composition of Australia's Gross Domestic Product (GDP) from manufacturing industries to service sectors, resulting in lower energy intensity. This has also led to a shift in the location of energy use by industry, particularly as China and India seek to utilise more and more of Australia's mineral resources;
 - Together with falling demand, wholesale electricity prices have softened, resulting in lower revenue for generators. Some generators, including EnergyAustralia, have sought to either reduce output or reassess their reliability standard, with consequential flow-on impacts to planned maintenance programmes. Despite such measures, there has been little impact on the growing gap between available supply of generation and demand.
 - Significant impacts have also been experienced on the supply side of the market, largely due to the Renewable Energy Target (RET). Substantial and unanticipated reductions on forecast energy demand in the National Energy Market has meant the current overall RET (20% of market share of renewable energy generation by 2020) is likely to be exceeded. One unintended consequence is that the RET leads to an over-supplied wholesale market, further dampening wholesale prices.
 - Transformational change is also being experienced in the gas market, driven primarily by domestic gas prices linking to world gas prices via liquefied natural gas (LNG) projects coming to market. The expansion and exploitation of unconventional gas in meeting global demand is also resulting in an increase in input costs above historical domestic levels adding further pressure to gas prices.

These factors, individually and in unison, have had a substantial impact on the valuation of each of our cash generating units (CGUs) in the current year. As a result, impairment and other provisions have been incurred across the majority of EnergyAustralia's generation assets and included in the Australia segment.

The impairment and other provisions for each individual CGU are presented below:

	Pre-tax HK\$M	Post-tax HK\$M
Yallourn ⁽ⁱ⁾ – coal-fired generation	3,043	2,130
Tallawarra ⁽ⁱⁱ⁾ – gas-fired generation	650	455
Ecogen ⁽ⁱⁱⁱ⁾ – contract to operate two gas-fired generators	654	458
Hallett ^(iv) – gas-fired generation	90	63
	<u>4,437</u>	<u>3,106</u>

- (i) Impairment of fixed assets of HK\$3,010 million (A\$435 million) and other intangible assets (mining licences) of HK\$33 million (A\$5 million). The impairment is triggered by the Group's view of lower future wholesale prices in Victoria.

7. Operating Profit (continued)

Notes (continued):

- (ii) Impairment of fixed assets of HK\$650 million (A\$94 million) which is triggered by the lowered forecast wholesale prices in NSW and forecast growth in gas prices.
- (iii) Impairment of other intangible assets (Master Hedge Agreement (MHA) with Ecogen – including the right to operate the Newport and Jeeralang Power Stations) of HK\$564 million (A\$82 million) and provision for onerous contract of HK\$90 million (A\$13 million) in relation to committed premium payments till April 2019. The impairment is triggered by lower forecast wholesale prices in Victoria. In view of the unavoidable costs under MHA exceeding the expected benefits, the difference is recognised as a provision for onerous contract at year end.
- (iv) Impairment of fixed assets of HK\$90 million (A\$13 million) which is triggered by lower forecast wholesale prices in South Australia.

In 2012, Tallawarra, Ecogen and Hallett were allocated to a Portfolio Gas CGU which also included Iona gas storage facility. These assets are now considered as separate CGUs as the interdependence of these assets no longer exists.

- (f) In May 2013, the Group sold its 75% interest in Waterloo Investment Holdings Pty Ltd (Waterloo) for a consideration of HK\$1,708 million (A\$228 million) with a gain of HK\$24 million (A\$3 million) (2012: nil). Following the sale, Waterloo became a 25% owned joint venture of the Group.

8. Share of Results of Joint Ventures, Net of Income Tax

The Group's share of results of joint ventures included an impairment provision for CSEC Guohua International Power Company Limited and CLP Guohua Shenmu Power Company Limited of HK\$297 million.

9. Income Tax (Credit)/Expense

Income tax in the consolidated statement of profit or loss represents the income tax of the Company and subsidiaries and is analysed below:

	2013 HK\$M	2012 HK\$M
Current income tax		
Hong Kong	534	654
Outside Hong Kong	305	228
	<u>839</u>	<u>882</u>
Deferred tax		
Hong Kong	473	463
Outside Hong Kong	(1,544)	347
	<u>(1,071)</u>	<u>810</u>
	<u>(232)</u>	<u>1,692</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

10. Dividends

	2013		2012	
	HK\$ per share	HK\$M	HK\$ per share	HK\$M
First to third interim dividends paid	1.59	4,017	1.59	3,825
Fourth interim dividend declared	0.98	2,476	0.98	2,476
	<u>2.57</u>	<u>6,493</u>	<u>2.57</u>	<u>6,301</u>

At the Board meeting held on 27 February 2014, the Directors declared the fourth interim dividend of HK\$0.98 per share (2012: HK\$0.98 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements, but as a separate component of the shareholders' funds at 31 December 2013.

11. Earnings per Share

The earnings per share are computed as follows:

	2013	2012
Earnings attributable to shareholders (HK\$M)	<u>6,060</u>	<u>8,312</u>
Weighted average number of shares in issue (thousand shares)	<u>2,526,451</u>	<u>2,410,088</u>
Earnings per share (HK\$)	<u>2.40</u>	<u>3.45</u>

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2013 (2012: nil).

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property

Fixed assets, leasehold land and land use rights under operating leases and investment property totalled HK\$130,903 million (2012: HK\$134,329 million), which included assets under construction with book value of HK\$11,597 million (2012: HK\$7,937 million). Movements in the accounts are as follows:

(A) Fixed Assets

	Land		Buildings		Plant, Machinery and Equipment		Total
	Freehold HK\$M	Leased HK\$M	Owned HK\$M	Leased ^(a) HK\$M	Owned HK\$M	Leased ^(a) HK\$M	HK\$M
Net book value at 1 January 2013	865	538	13,242	5,617	84,760	27,441	132,463
Acquisition of business (Note 3)	62	-	-	-	17	-	79
Sale of a subsidiary (Note 7(f))	-	-	(74)	-	(1,578)	(178)	(1,830)
Additions	41	-	964	363	7,542	3,139	12,049
Revaluation surplus ^(b)	-	2,055	-	-	-	-	2,055
Transfers and disposals	(34)	(2,073)	(190)	(7)	5,012	(5,422)	(2,714)
Depreciation	-	(14)	(323)	(358)	(3,825)	(2,127)	(6,647)
Impairment charge	-	-	(75)	-	(3,807)	-	(3,882)
Exchange differences	(108)	-	(71)	-	(4,058)	(460)	(4,697)
Net book value at 31 December 2013	826	506	13,473	5,615	84,063	22,393	126,876
Cost	842	601	17,462	12,219	135,460	48,126	214,710
Accumulated depreciation and impairment	(16)	(95)	(3,989)	(6,604)	(51,397)	(25,733)	(87,834)
Net book value at 31 December 2013	826	506	13,473	5,615	84,063	22,393	126,876

12. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (continued)

(A) Fixed Assets (continued)

Notes:

- (a) These leased assets include mainly CAPCO's operational generating plant and associated fixed assets of net book value of HK\$27,947 million (2012: HK\$26,987 million), which are deployed for the generation of electricity supplied to CLP Power Hong Kong under the Electricity Supply Contract between the two parties; and in 2012, Delta Electricity's power station at Mount Piper of net book value of HK\$5,804 million under the Delta Western GenTrader contract. These arrangements have been accounted for as finance leases in accordance with HK(IFRIC)-Int 4 and HKAS 17. The Delta Western GenTrader contracts were terminated following the acquisitions of Mount Piper and Wallerawang (Note 3). The leased assets of Mount Piper were reclassified as owned assets.
- (b) The property at the Argyle Street site was transferred from fixed asset to investment property during the year pursuant to its redevelopment. A revaluation surplus of HK\$2,055 million was recognised in revaluation reserve upon the transfer. Whilst the use and development of the property is subject to both regulatory and statutory restrictions imposed by the Hong Kong Government, future use of the property is undetermined.

(B) Leasehold Land and Land Use Rights under Operating Leases

	2013 HK\$M	2012 HK\$M
Net book value at 1 January	1,866	1,811
Additions	3	101
Amortisation	(48)	(46)
Impairment charge	(18)	-
Exchange differences	3	-
Net book value at 31 December	1,806	1,866
Cost	2,237	2,250
Accumulated amortisation and impairment	(431)	(384)
Net book value at 31 December	1,806	1,866

(C) Investment Property

	2013 HK\$M	2012 HK\$M
At 1 January	-	-
Transfers	2,221	-
At 31 December	2,221	-

The Group's investment property is located at Argyle Street, Kowloon.

13. Trade and Other Receivables

	2013	2012
	HK\$M	HK\$M
Trade receivables	13,864	15,536
Deposits, prepayments and other receivables	3,187	2,768
Dividend receivables from		
Joint ventures	760	124
An associate	-	10
An available-for-sale investment	82	43
Current accounts with		
Joint ventures	58	71
An associate	2	-
	17,953	18,552

The Group has established credit policies for customers in each of its retail businesses. CLP Power Hong Kong's credit policy in respect of receivables arising from its principal electricity business is to allow customers to settle their electricity bills within two weeks after issue. Customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. For subsidiaries outside Hong Kong, the credit terms for trade receivables range from about 14 to 60 days.

EnergyAustralia determines its doubtful debt provisioning by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. Future cash flows for each group of trade receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions. As a result of this credit risk assessment, virtually all of the credit risk groupings have been subject to some level of impairment. Receivable balances relating to known insolvencies are individually impaired. At 31 December 2013, EnergyAustralia held cash deposits of HK\$3 million (2012: HK\$102 million) and no bank guarantees (2012: HK\$14 million) in relation to outstanding receivable balances.

The ageing analysis of trade receivables at 31 December based on invoice date is as follows:

	2013	2012
	HK\$M	HK\$M
30 days or below	11,366	13,226
31 – 90 days	1,292	949
Over 90 days	1,206	1,361
	13,864	15,536

14. Trade and Other Payables

	2013	2012
	HK\$M	HK\$M
Trade payables	11,336	11,186
Other payables and accruals	5,436	7,771
Current accounts with		
Joint ventures	1,474	1,447
An associate	55	103
Deferred revenue	1,024	1,225
	19,325	21,732

14. Trade and Other Payables (continued)

The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2013	2012
	HK\$M	HK\$M
30 days or below	10,641	10,921
31 – 90 days	472	137
Over 90 days	223	128
	<u>11,336</u>	<u>11,186</u>

15. Bank Loans and Other Borrowings

	2013	2012
	HK\$M	HK\$M
Current		
Short-term bank loans	1,296	835
Long-term bank loans	4,442	4,760
Other long-term borrowings		
Medium Term Note (MTN) programme (HKD) due 2014/2013	1,380	1,300
	<u>7,118</u>	<u>6,895</u>
Non-current		
Long-term bank loans	19,471	26,988
Other long-term borrowings		
MTN programme (USD) due 2020 to 2027	10,295	11,020
MTN programme (HKD) due 2015 to 2041	8,895	10,440
MTN programme (JPY) due 2021 to 2026	2,289	2,789
MTN programme (AUD) due 2021 to 2023	759	725
Electronic Promissory Notes (EPN) and MTN programme (AUD) due 2015	345	402
U.S. private placement notes (USD) due 2017 to 2027	6,879	6,939
	<u>48,933</u>	<u>59,303</u>
Total borrowings	<u>56,051</u>	<u>66,198</u>

16. SoC Reserve Accounts

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Interim Refunds of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2013	2012
	HK\$M	HK\$M
Tariff Stabilisation Fund	19	712
Rate Reduction Reserve	9	8
Rent and Rates Interim Refunds (note)	-	525
	28	1,245

Note: CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 1999/2000. While the original Lands Tribunal judgment and the subsequent judgment on the review of valuation matters were received in CLP Power Hong Kong's favour, final resolution of this case will be subject to the outcome of appeals to the Court of Appeal against the Lands Tribunal judgment on points of law.

In 2012, CLP Power Hong Kong received interim refunds of HK\$1,601 million from the Hong Kong Government and in 2013, a further interim refund of HK\$40 million was received. These interim refunds totalling HK\$1,641 million were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decision of the Lands Tribunal and subsequent appeals.

Based on the latest development of the case, CLP Power Hong Kong maintains that it would recover no less than interim refunds received to date in the final outcome of these appeals. The interim refunds continued to be classified within the SoC reserve accounts.

While the final resolution of the appeals is pending, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of HK\$1,076 million in 2012 and HK\$565 million in 2013 on the assumption of a favourable outcome of its appeals. The Rent and Rates Special Rebate was ceased in October 2013 with the total amount of interim refunds received fully expended.

The amount of the Government Rent and Rates Special Rebate made to customers has been offset against the interim refunds received:

	2013	2012
	HK\$M	HK\$M
At 1 January	525	-
Interim Refunds received	40	1,601
Rent and Rates Special Rebate	(565)	(1,076)
At 31 December	-	525

In the event that the final amount recovered on conclusion of these appeals is less than the total amount rebated to customers, CLP Power Hong Kong will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, consistent with the commitment to pass on to customers any refunds of rent and rates awarded through these appeals, if the final amount recovered exceeds the special rebates paid out, these additional amounts will be rebated to customers.

17. Reserves

	Capital Redemption Reserve ^(a) HK\$M	Translation Reserves HK\$M	Hedging Reserves HK\$M	Other Reserves HK\$M	Retained Profits HK\$M	Total HK\$M
Balance at 1 January 2013	2,492	6,641	1,038	485	59,720	70,376
Earnings attributable to shareholders	-	-	-	-	6,060	6,060
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	-	(5,929)	-	-	-	(5,929)
Joint ventures	-	151	-	-	-	151
An associate	-	1	-	-	-	1
Cash flow hedges						
Net fair value losses	-	-	(104)	-	-	(104)
Reclassification to profit or loss	-	-	257	-	-	257
Tax on the above items	-	-	(25)	-	-	(25)
Available-for-sale investments						
Reclassification adjustment for amount included in profit or loss upon sale	-	-	-	10	-	10
Fair value gain on revaluation upon transfer from fixed asset to investment property	-	-	-	2,055	-	2,055
Reclassification adjustment upon sale of a subsidiary	-	(8)	-	-	-	(8)
Share of other comprehensive income of joint ventures	-	-	9	250	-	259
Total comprehensive income attributable to shareholders	-	(5,785)	137	2,315	6,060	2,727
Revaluation reserve realised due to depreciation of fixed assets	-	-	-	(2)	2	-
Appropriation of reserves						
Subsidiaries	-	-	-	12	(12)	-
Joint ventures	-	-	-	52	(52)	-
Dividends paid						
2012 fourth interim	-	-	-	-	(2,476)	(2,476)
2013 first to third interim	-	-	-	-	(4,017)	(4,017)
Balance at 31 December 2013	2,492	856	1,175	2,862^(b)	59,225^(c)	66,610

Notes:

- (a) Capital redemption reserve represents the nominal value of shares repurchased which was paid out of the distributable reserves of the Company.
- (b) Including fixed assets revaluation reserve of HK\$2,055 million (2012: nil) arising from the revaluation of the Argyle Street site upon transfer from fixed asset to investment property (Note 12(A)(b)).
- (c) The fourth interim dividend declared for the year ended 31 December 2013 was HK\$2,476 million (2012: HK\$2,476 million). The balance of retained profits after the fourth interim dividend of the Group was HK\$56,749 million (2012: HK\$57,244 million).

18. Capital Commitments

- (A) Capital expenditure on fixed assets, leasehold land and land use rights under operating leases and investment property, as well as intangible assets contracted or authorised but not recorded in the statement of financial position is as follows:

	2013 HK\$M	2012 HK\$M
Contracted but not provided for	5,812	10,458
Authorised but not contracted for	9,834	11,347
	<u>15,646</u>	<u>21,805</u>

- (B) The Group has entered into a number of joint venture arrangements to develop power projects. At 31 December 2013, remaining equity contributions of HK\$742 million (2012: HK\$111 million) were required to be made by the Group.

CLP Energy Infrastructure Limited, an indirect wholly-owned subsidiary of the Company, has entered into a joint venture contract with PetroChina Company Limited to form a Sino-Foreign Joint Venture to own and operate the Second West-East Natural Gas Pipeline Hong Kong Branch Line (the “HK Branch Line project”) for transportation of natural gas from Shenzhen to Hong Kong. In addition to the equity contribution of HK\$628 million included above, the Group also committed to contribute RMB981 million (HK\$1,257 million) in the form of shareholders’ loans.

- (C) On 19 November 2013, CLP Power Hong Kong entered into agreements to acquire ExxonMobil Energy Limited (EMEL)’s 30% interest in CAPCO and 51% interest in PSDC for a total consideration of HK\$14 billion (Note 20).

19. Contingent Liabilities

- (A) CLP India – Deemed Generation Incentive Payment and Interests on Deemed Loans

Under the original power purchase agreement between CLP India Private Limited (CLP India) and its off-taker GUVNL, GUVNL was required to make a “deemed generation incentive” payment to CLP India when the plant availability of Paguthan was above 68.5% (70% as revised subsequently). GUVNL has been making such payments since December 1997.

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the “deemed generation incentive” payment should not be paid for the periods when Paguthan is declared with availability to generate on “naphtha” as fuel rather than on “gas”. GUVNL’s contention is based on a 1995 Government of India notification which disallowed “deemed generation incentive” for naphtha-based power plants. The total amount of the claim plus interest calculated up to June 2005 amounts to about Rs.7,260 million (HK\$912 million). CLP India’s position, amongst other arguments, is that Paguthan is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the “deemed generation incentive”.

GUVNL also claimed that CLP India has wrongly received interest on “deemed loans” under the existing power purchase agreement. GUVNL’s claim rests on two main grounds: (i) CLP India had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the “deemed loans” amounts to a further Rs.830 million (HK\$104 million) (2012: Rs.830 million (HK\$118 million)).

19. Contingent Liabilities (continued)

(A) CLP India – Deemed Generation Incentive Payment and Interests on Deemed Loans (continued)

On 18 February 2009, the GERC made an adjudication on GUVNL's claims. On the issue related to the payment to CLP India of "deemed generation incentive", the GERC decided that the "deemed generation incentive" was not payable when Paguthan was declared with availability to generate on naphtha. However, the GERC also decided that GUVNL's claim against CLP India in respect of deemed generation incentive up to 14 September 2002 was time-barred under the Limitations Act of India. Hence, the total amount of the claim allowed by the GERC was reduced to Rs.2,523 million (HK\$317 million). The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans".

CLP India filed an appeal with the Appellate Tribunal for Electricity (ATE) against the decision of the GERC. GUVNL also filed an appeal in the ATE against an order of the GERC rejecting GUVNL's claims on interest on deemed loans and the time barring of the deemed generation claim to 14 September 2002. On 19 January 2010, the ATE dismissed both CLP India and GUVNL's appeals and upheld the decision of the GERC. CLP India has filed an appeal against the ATE order in the Supreme Court of India. The appeal petition was admitted on 16 April 2010 but the next date of hearing has not yet been fixed by the court. GUVNL has also filed a cross appeal challenging those parts of the ATE judgment which held that GUVNL's claims before September 2002 were time barred and which disallowed its claims for interest on "deemed loans".

Following the issue of the ATE's judgment, GUVNL deducted Rs.3,731 million (HK\$469 million) from January to March 2010 invoices after adjustment for a previous deposit of Rs.500 million (HK\$63 million), which included tax on incentive relating to deemed generation on naphtha, and delayed payment charges on associated incentive calculated up to March 2010.

Subsequent to the above deduction, CLP India represented to GUVNL that, during April 2004 to March 2006, gas was available for generation and therefore should not be considered as availability (deemed generation) on naphtha. GUVNL accepted the representation and refunded the base amount of Rs.292 million (HK\$37 million) and interest of Rs.150 million (HK\$19 million) in March 2011. However, during the first and last quarter of 2011, with the spot gas availability being constrained, Paguthan was forced to declare availability on naphtha for certain periods, which resulted in deduction of incentive revenue by GUVNL under deemed generation of Rs.17 million (HK\$2 million). At 31 December 2013, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK\$1,073 million) (2012: Rs.8,543 million (HK\$1,211 million)).

On the basis of legal advice obtained, the Directors are of the opinion that CLP India has a strong case on appeal to the Supreme Court. In consequence, no provision has been made in the financial statements at this stage in respect of these matters.

(B) Indian Wind Power Projects – WWIL's Contracts

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries (CLP India group) have invested (or are committed to invest) in around 681MW of wind power projects to be developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2013, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

19. Contingent Liabilities (continued)**(C) Jhajjar – Disputed Charges with Off-takers**

Jhajjar Power Limited (Jhajjar) has disputes with its off-takers over applicable tariff of capacity charges, energy charges relating to transit loss, coal-handling agent charges and Unscheduled Interchange charges payable as per the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2009. Total disputed amounts were Rs.1,433 million (HK\$180 million) at 31 December 2013 (2012: nil). Jhajjar has filed a petition against its off-takers in March 2013. The Group considered that Jhajjar has a strong case and hence, no provision has been made.

(D) Land Premium of a Property in Hong Kong

The Group has received a demand note from the relevant authorities in the Hong Kong Government in an amount of HK\$280 million (2012: HK\$237 million) as land premium relating to the Group's new office at Laguna Verde at Hung Hom. The Group considered, including on the basis of legal and other professional advice, that no payment is due. Exchanges are continuing regarding both the principle and quantum of any such premium.

20. Event after the End of the Reporting Period

On 19 November 2013, CLP Power Hong Kong entered into: (a) an agreement whereby each of CLP Power Hong Kong and China Southern Power Grid International (HK) Co., Limited (CSG HK), a wholly-owned subsidiary of China Southern Power Grid Co., Limited (CSG), will acquire half of EMEL's 60% equity interest in, and associated shareholder's advances to, CAPCO; and (b) an agreement, whereby CLP Power Hong Kong agreed to acquire all of EMEL's 51% equity interest in, and associated shareholder's advances to, PSDC. Subject to the consideration adjustment mechanism set out in each of the agreements, the aggregate unadjusted consideration payable by CLP Power Hong Kong in respect of the acquisitions is HK\$14 billion (HK\$12 billion for the CAPCO acquisition and HK\$2 billion for the PSDC acquisition), which will be payable to EMEL fully in cash at completion. After completion, CAPCO will be 70% and 30% owned by CLP Power Hong Kong and CSG HK respectively and PSDC will be 100% owned by CLP Power Hong Kong.

The acquisitions were approved by the shareholders of the Company at the Extraordinary General Meeting held on 22 January 2014. Completion of the acquisitions is still subject to CSG obtaining approvals from regulatory bodies in the PRC. The acquisitions are expected to be completed in the middle of 2014.

SUPPLEMENTARY INFORMATION ON TREASURY ACTIVITIES

The Group engaged in new financing activities in 2013 in support of its electricity business. In November 2013, CLP Holdings arranged HK\$10 billion bridge financing (HK\$5 billion 1-year facility and HK\$5 billion 2-year facility) for the acquisitions of a further 30% interest in CAPCO and remaining 51% interest in PSDC which can be drawn in names of CLP Holdings or CLP Power Hong Kong. In addition, CLP Holdings arranged a HK\$500 million 3-year new committed bank loan facility at favourable terms in January 2013. As CLP Power Hong Kong had successfully completed HK\$7.0 billion pre-funding for year 2013 in 2012 when interest rates were at record low, the remaining debt funding for 2013 was thus fairly moderate at HK\$1.8 billion. These comprise JPY12 billion (HK\$934 million) 3-year syndicated bank loans arranged in September 2013; a A\$20 million (HK\$161 million) 10-year bond under the Medium Term Note (MTN) Programme issued in May 2013; and HK\$750 million 3-year bank loan facilities arranged in March 2013. Foreign currency proceeds were swapped back to Hong Kong dollars to mitigate foreign currency risk. CLP Power Hong Kong's MTN Programme was set up by its wholly-owned subsidiary CLP Power Hong Kong Financing Limited in 2002. Under the MTN Programme, bonds in an aggregate amount of up to US\$4.5 billion, increased from US\$3.5 billion, may be issued and will be unconditionally and irrevocably guaranteed by CLP Power Hong Kong. As at 31 December 2013, notes with an aggregate nominal value of about HK\$25.0 billion have been issued under the MTN Programme.

In Australia, EnergyAustralia completed an early-refinancing of A\$2.1 billion (HK\$14.5 billion) bank loan facilities in January 2014 with maturities extended by an average of 1.8 years and at lower interest margins. In July 2013, EnergyAustralia extended a A\$700 million (HK\$4,841 million) working capital facility by one year to June 2016 with existing lenders at lower interest margin. In 2013, CLP Wind Farms (India) Private Limited arranged Rs.6.5 billion (HK\$816 million) short-term bank loan facilities to fund the construction of various wind projects which will be replaced by long-term financing after construction complete. In May and October 2013, non-recourse project loan facilities of RMB750 million (HK\$961 million) for the Jinchang Solar Power project (51% CLP owned) and RMB215 million (HK\$275 million) for the Laiwu Phase I Wind Power project (CLP wholly-owned) were arranged respectively.

As at 31 December 2013, the Group maintained HK\$89.3 billion financing facilities, including HK\$35.3 billion for EnergyAustralia and subsidiaries in India. Of the facilities available, HK\$56.1 billion had been drawn down, of which HK\$22.9 billion relates to EnergyAustralia and subsidiaries in India. Facilities totalling HK\$6.3 billion were available to CAPCO, of which HK\$5.9 billion had been drawn down. The Group's total debt to total capital ratio as at 31 December 2013 was 39.1%, decreasing to 36.7% after netting off bank balances, cash and other liquid funds. Interest cover for the year ended 31 December 2013 was three times.

CLP always strives to maintain good investment grade credit ratings. Standard & Poor's (S&P) and Moody's re-affirmed the credit ratings of CLP Holdings (A-/A2) and CLP Power Hong Kong (A/A1) with stable outlooks in February and March 2013 respectively. S&P explained that ratings reflect the strong business risk profile and modest financial risk profile of CLP Holdings; adequate liquidity position supported by strong operating cash flow of the SoC business in Hong Kong; and strong financial flexibility because of good access to bank facilities and capital markets. S&P expected the financial strength of CLP Holdings to improve meaningfully from 2014 due to: (a) higher returns from Hong Kong operations; and (b) higher earnings from its Australian operations due to integration of New South Wales assets by the end of 2013. S&P alerted that CLP Holdings' expansion of Asia Pacific power investments temper the strengths that CLP Power Hong Kong brings and increase CLP Holdings' business and operating risks. Moody's opined CLP Power Hong Kong has strong and predictable cash flows; a sound liquidity profile of CLP Holdings supported by the good track record in accessing the domestic and international bank and capital markets; a well-managed debt maturity profile; and availability of sizable committed bank facilities. Moody's cautioned that CLP Holdings' growing overseas and non-regulatory business investments increase risk profile and weaken CLP Holdings' financial profile.

On 19 November 2013, S&P and Moody's put the credit ratings of CLP Holdings (A-/A2) and CLP Power Hong Kong (A/A1) on watch with negative implication following CLP's announcement of the proposed CAPCO and PSDC acquisitions. This is not unexpected as rating agencies usually issue a rating watch after the announcement of major transactions by a rated entity. We are closely working with S&P and Moody's to explain the rationale of the transaction along with business and financial implications of the acquisitions. S&P opined that the proposed CAPCO and PSDC acquisitions by CLP Power Hong Kong would improve the operational and management efficiency, facilitate stronger control over generation assets and allow better coordination of generation, transmission, and distribution businesses. Nevertheless, S&P alerted that the proposed debt-funded acquisition by CLP Power Hong Kong could further weaken the financial strength of CLP Holdings. Moody's considered the planned CAPCO acquisition will improve CLP Power Hong Kong's credit profile as it will better integrate its power operations. However, Moody's warned that the proposed CAPCO and PSDC acquisitions add pressure to CLP Holdings' financial profile and reduce headroom for their financial metrics. The projected credit metrics will be marginal for the current rating of CLP Holdings if the acquisitions are largely debt-funded.

S&P lowered the credit rating of EnergyAustralia to BBB- with negative outlook from BBB with negative outlook in October 2013. According to S&P, the rating reflects the track record of support from its higher rated owner, CLP Holdings and EnergyAustralia's strong liquidity profile. S&P concerned that EnergyAustralia's weakened business and financial risk profiles resulting from relatively higher operating costs, continued delays in stabilising its retail billing platform, declining demand trends, and soft electricity price trends will likely constrain near to medium term profitability.

The Group's investments and operations have resulted in exposure to foreign currency risks, interest rate risks, credit risks, as well as price risks associated with the sale and purchase of electricity in Australia. We actively manage these risks by using different derivative instruments with the objective of minimising the impact of rate and price fluctuations on earnings, reserves and tariff charges to customers. In meeting the objectives of risk management, we always prefer simple, cost-efficient and Hong Kong Financial Reporting Standards hedge-effective instruments. For instance, we prefer foreign currency forward contracts, cross currency and interest rate swaps to structured products for managing financial risk. We also monitor our risk exposures with the assistance of a "Value-at-Risk" (VaR) methodology, Volumetric Limits and stress testing techniques. Other than very limited energy trading activities engaged by our Australia business, all derivative instruments are employed solely for hedging purposes.

As at 31 December 2013, the Group had gross outstanding derivative financial instruments amounted to HK\$173.1 billion. The fair value of these derivative instruments was a net deficit of HK\$596 million, representing the net amount payable if these contracts were closed out on 31 December 2013.

CORPORATE GOVERNANCE

Since February 2005, the Company has adopted its own Code on Corporate Governance (the CLP Code). This incorporates all of the Code Provisions and Recommended Best Practices in the Hong Kong Stock Exchange's Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, save for the single exception regarding quarterly financial results which is specified and explained in our Corporate Governance Report, as part of our Annual Report. CLP has also applied all of the principles in the Stock Exchange Code. The manner in which this has been done is set out in the CLP Code and the Corporate Governance Report.

CLP's only deviation from the Recommended Best Practices relates to the recommendation that an issuer should announce and publish quarterly financial results. The reason is a judgment that, as a matter of principle and practice, quarterly reporting does not bring significant benefits to shareholders. Quarterly reporting encourages a short-term view of a company's business performance. CLP's activities do not run and should not fall to be disclosed and judged on a three-month cycle. Preparation of quarterly reports also costs money, including the opportunity cost of board and management time spent on quarterly reporting. CLP's position is set out on our website. We do, however, issue quarterly statements which set out key financial and business information such as electricity sales, dividends and progress in major business activities.

Throughout the year, the Company met the Code Provisions as set out in the Stock Exchange Code. Details of the continuing evolution of our corporate governance practices in 2013 are set out in the Corporate Governance Report.

All of the Audit Committee members are appointed from the Independent Non-executive Directors, with the Chairman (Mr. Vernon Moore), Professor Judy Tsui and Mr. Nicholas C. Allen having appropriate professional qualifications, including membership of the Hong Kong Institute of Certified Public Accountants, and experience in financial matters. Mrs. Fanny Law has extensive experience in public administration and Ms. Irene Lee has wide experience in financial services, including banking, funds management and general insurance.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Financial Statements for the year ended 31 December 2013. It has also reviewed the findings and opinion of Group Internal Audit (GIA) and Management on the effectiveness of the Company's system of internal control.

The Audit Committee has received regular updates from EnergyAustralia on its new Customer Management and Billing System – Customer First (C1), EnergyAustralia Integration Project, status of key control testing and outstanding audit issues. In June 2013 GIA undertook and completed a Post Implementation Review of C1. A significant number of control issues in C1 were identified. The issues were reviewed by the CLP Holdings Audit Committee as well as the EnergyAustralia Audit and Risk Committee and are being actively addressed by management, including performing alternate substantive procedures to obtain an appropriate level of assurance over revenue related data, balances and transactions for 2013. Save for the control issues identified in C1 and Customer Operations, no other significant areas of concern that might affect shareholders were identified during the twelve months ended 31 December 2013.

The Audit Committee also reviewed the overall internal audit results for 2013 and all the internal audit reports submitted in 2013. During the twelve month period ended 31 December 2013, the Audit Committee was advised that four reports (out of a total of 28) submitted by GIA regarding Accounts Payable, Remuneration & Rewards, Customer Operations and Customer Sales at EnergyAustralia carried an unsatisfactory audit opinion. The issues arising from these audits are being addressed by management.

Based on the information received from management, the external auditor and GIA, the Audit Committee believes that overall financial and operating controls for the Group during 2013 continue to be effective and adequate. Further information about control standards, checks and balances and control processes is set out in the Corporate Governance Report of the Annual Report. The Audit Committee confirms that it has discharged its responsibilities in accordance with the requirements of the CLP Code and is satisfied that the Group has complied with all the Code Provisions of the Stock Exchange Code with respect to internal controls.

Since 1989, the Company has adopted its own Code for Securities Transactions by Directors, largely based on the Model Code set out in Appendix 10 of the Listing Rules. Our Code is periodically updated to reflect new regulatory requirements, as well as our strengthened regime of disclosure of interests in our securities. This Code is on terms no less exacting than the required standard set out in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2013 they complied with the required standard set out in the Model Code and our own Code for Securities Transactions.

We have voluntarily extended the ambit of the CLP Code for Securities Transactions to cover all Senior Management (comprising the CEO and ten other managers, whose biographies are set out in the Annual Report and on CLP's website) and other "Specified Individuals" such as senior managers in the CLP Group. Members of the Senior Management have all confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2013 they complied with the required standard set out in the Model Code and CLP Securities Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2013.

FOURTH INTERIM DIVIDEND

Today, the Board of the Company declared the fourth interim dividend for 2013 at HK\$0.98 per share (2012: HK\$0.98 per share). This fourth interim dividend will be payable on all shares in issue as at the close of business on 13 March 2014 after deducting any shares repurchased and cancelled up to the close of business on 13 March 2014. As at 31 December 2013, 2,526,450,570 shares of the Company were in issue. The fourth interim dividend of HK\$0.98 per share will be payable on 25 March 2014 to shareholders registered as at 14 March 2014.

The Register of Shareholders will be closed on 14 March 2014. To rank for the fourth interim dividend, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 13 March 2014.

ANNUAL GENERAL MEETING

The sixteenth Annual General Meeting (AGM) will be held at the Jockey Club Auditorium, The Hong Kong Polytechnic University, Hung Hom, Kowloon, Hong Kong on Thursday, 8 May 2014, at 11:00 a.m. The Notice of AGM will be published on the websites of the Company and the Stock Exchange of Hong Kong Limited and despatched to shareholders on or about 28 March 2014.

To facilitate the processing of proxy voting, the Register of Shareholders will be closed from 7 May 2014 to 8 May 2014, both days inclusive, during which period the registration of transfers of shares will be suspended. To be entitled to attend and vote at the AGM, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 5 May 2014.

By Order of the Board
April Chan
 Company Secretary

Hong Kong, 27 February 2014

The Company's Annual Report containing the Directors' Report and Financial Statements for the year ended 31 December 2013 will be published on the Company's website at www.clpgroup.com and the website of the Stock Exchange of Hong Kong on or about 13 March 2014. The Annual Report and the Notice of Annual General Meeting will be despatched to shareholders on or about 28 March 2014. All of these will be made available on the Company's website.

CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

(Stock Code: 00002)

Non-executive Directors:

The Hon. Sir Michael Kadoorie, Mr. William Mocatta, Mr. R. J. McAulay, Mr. J. A. H. Leigh, Mr. I. D. Boyce, Dr. Y. B. Lee and Mr. Paul A. Theys
 (Mr. David Moore as Mr. Theys' alternate)

Independent Non-executive Directors:

Mr. V. F. Moore, Professor Judy Tsui, Sir Rod Eddington, Mr. Nicholas C. Allen, Mr. Vincent Cheng, Mrs. Fanny Law, Ms. Irene Lee and Dr. Rajiv Lall

Executive Directors:

Mr. Richard Lancaster and Mr. Andrew Brandler