中 電 控 股 有 限 公 司

CLP Holdings Limited

(incorporated in Hong Kong with limited liability)
(Stock Code: 00002)

Profit Warning for the six months ending 30 June 2022 – EnergyAustralia Earnings Update

This announcement is made by CLP Holdings Limited (the "Company", together with its subsidiaries, the "Group") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Profit Warning

The Company wishes to inform its shareholders and potential investors that due to substantial unfavourable fair value movements on forward contracts of EnergyAustralia, it is expected that the Group will record a consolidated loss for the six months ending 30 June 2022.

The Group's accounting earnings have been adversely affected by the challenging and extreme energy markets conditions in Australia. Based on the Group's unaudited consolidated management accounts for the five months ended 31 May 2022, the unfavourable fair value loss (after tax) from EnergyAustralia was approximately HK$7.2 billion which takes the consolidated Operating Earnings of the Group to a loss of approximately HK$3.7 billion. Outside of Australia, the rest of the Group's business segment earnings for the five months ended 31 May 2022 was broadly in line with the Group's performance for the same period last year.

Background and Australian Energy Market Update

First Quarter 2022

The Company (or "we") first reported of the challenging conditions in our Quarterly Statement 2022 (January – March) and Inside Information Announcement (dated 16 May 2022) (the "May 16 Announcement").

We referred to the volatile and rising wholesale power prices for both spot sales and forward contracts in the Australian National Electricity Market ("NEM") and reported on the significant unfavourable fair value movements for the forward energy contracts and the impact on earnings (see extract below). Although these forward energy contracts are entered into by EnergyAustralia for economic hedging purposes, they do not qualify for hedge accounting treatment. We also explained that the unfavourable fair value movements represent the difference between the higher forward electricity prices now prevailing in the market and the prices that EnergyAustralia had previously committed to in its forward energy contracts (these forward sold contracts are out of the money).

The relevant statement in relation to the fair value movements in the May 16 Announcement was as follows:

"Based on the CLP unaudited consolidated management accounts for the three months ended 31 March 2022, the fair value movements had an after tax negative impact of HK$2.5 billion on the Group's Operating Earnings."

These unfavourable fair value movements are characterised as accounting unrealised losses based on contract positions at a particular point in time and are subject to change (on a daily basis).

Recent Market Update

In recent weeks, the extreme and exceptional price surges and volatility have continued in the NEM driven by the confluence of the unavailability of major coal-fired power stations and high commodity prices. In response to these conditions, the Australian Energy Market Operator ("AEMO") imposed price caps for electricity spot prices in Queensland with an administered price cap of A$300/MWh on 12 June and furthermore, on 15 June, the AEMO suspended the spot market in the NEM for the first time since its inception in 1998 because, in the view of AEMO, "it has become impossible to continue operating the spot market while ensuring a secure and reliable supply of electricity for the consumers". The market suspension is temporary and is being reviewed daily.

EnergyAustralia is focused on offering all available generation and energy to AEMO, while safely and diligently addressing issues that may impact on plant outages. This would be the best way to support EnergyAustralia's customers through these difficult supply conditions. So far, AEMO has been able to successfully operate the system to ensure supply has been maintained for all customers. Despite the market suspension, forward contract prices remain elevated as compared to historic levels.

EnergyAustralia Earnings Update

The exceptional prevailing market conditions described above, combined with operational conditions specific to EnergyAustralia, have led to significant and unfavourable impacts on its contribution to the Group's earnings in the short term.

Unfavourable Fair Value Movements – Mark-to-Market Forward Energy Contracts

Since our May 16 Announcement, the prices and volatility in the forward contracts have further increased. The after tax negative impact of the significant unfavourable fair value movements on the Group's Operating Earnings increased from HK$2.5 billion for the 2022 first quarter to HK$7.2 billion for the five months ended 31 May 2022.

The position for the first half of 2022 remains uncertain as it will be determined by the prices prevailing in the market as at 30 June 2022. The loss recorded at that time has the potential to be either more or less than the amount recorded at 31 May 2022, yet it is expected to remain materially unfavourable to the Group's Operating Earnings. This final position will be reported as part of the Group's Interim Results, which are scheduled to be released on Monday 8 August 2022.

It is noted that these unfavourable fair value movements do have a material negative impact on earnings in the current period, however, they are not related to the underlying operational business performance. These are unrealised losses reflecting an opportunity cost versus prevailing prices at a particular point in time. The original sale price of the contract will be realised at contract expiry matched against the generation hedged, with the current fair value losses unwound.

The increase in wholesale prices that is driving the unfavourable fair value movements should increase earnings for EnergyAustralia's Energy segment business in the longer term, provided it can purchase fuel as required, generate and dispatch electricity at the higher prices.

Generation Operational Performance and High Wholesale Prices

During the five months ended 31 May 2022, generation output from the Yallourn Power Station has been affected by forced outages while Mount Piper Power Station has been fuel constrained with lower than expected coal deliveries from EnergyAustralia's coal supplier. This has resulted in the business being short to the contract positions it has previously entered into and the business having to buy electricity in the high-priced spot market to cover these positions.

For the first five months ended 31 May 2022, EnergyAustralia's contribution to the Group's after tax Operating Earnings (excluding the fair value loss) was approximately HK$1.1 billion lower than the same period for 2021.

Other Important Information

This profit warning is based on management's preliminary assessment of the unaudited consolidated management accounts of the Group and with other information currently available and which have not been reviewed by the Company's auditor. Furthermore, CLP Holdings' Board of Directors and Audit & Risk Committee will be assessing the level of loss as part of the review process of the Group's unaudited consolidated accounts for the six months ending 30 June 2022.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

By Order of the Board
David Simmonds
Company Secretary

Hong Kong, 20 June 2022

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The Directors of the Company as at the date of this announcement are:

Non-executive Directors:	The Hon Sir Michael David Kadoorie, Mr William Mocatta, Mr J. A. H. Leigh, Mr Andrew Brandler and Mr Philip Kadoorie
Independent Non-executive Directors:	Sir Rod Eddington, Mr Nicholas C. Allen, Mrs Fanny Law, Mrs Zia Mody, Ms May Siew Boi Tan, Ms Christina Gaw and Mr Chunyuan Gu
Executive Director:	Mr Richard Lancaster