

Once we are clear about CLP's values and capabilities we can develop a strategy which respects our values and exploits our capabilities.

Powering Asia Responsibly




Andrew Brandler, Chief Executive Officer

In this CEO's Review,

I explain how the values to which we are committed through our Value Framework and the key capabilities which drive the creation of value for our shareholders and stakeholders are incorporated into CLP's strategy. Last year, I reported on the outcome of the Board's review of CLP's strategy, both at Group level and business by business across the five major markets in which we are engaged. I explained that the Board and I felt that our strategy should be tied to a longer term vision for the Company – the direction in which our strategy should lead us and the type of Company we may be or become in the medium to longer term. I summarised how that strategy pointed toward a vision of CLP in 2020 as a diversified electricity company which:

- maintains its base and core operating business in Hong Kong, subject to the opportunities and challenges offered by any changing electricity regulatory framework;
- holds a significant stake in a leading listed Australian energy supplier, following industry consolidation;
- is the controlling shareholder of a listed energy company in India and Southeast Asia;
- has a significant, but minority, stake in nuclear energy in Southern China and is looking to exploit this in other Asian markets;
- invests in and operates, if available, transmission and distribution assets in India and in the Chinese mainland;
- has largely exited conventional coal-fired generation in the Chinese mainland; and
- is one of Asia's largest investors in clean and renewable energy.

This Annual Report, and the accompanying Sustainability Report, describe in detail the performance of CLP's business over the past year. In my Review, I want to place that performance in the context of the implementation of our strategy and our progress towards our 2020 Vision. 

The first point I should make is that the Group has delivered a strong performance in the past year. Our focus on our core Hong Kong electricity business remains consistent and effective. Elsewhere, we have taken forward our strategy of adopting a flexible, market-by-market approach, with a focus on a balanced portfolio which reflects our trajectory towards a low carbon business as contemplated in CLP's Climate Vision 2050.

Hong Kong

In Hong Kong, we have maintained supply reliability and quality, fair tariffs, customer service and environmental excellence which are the hallmarks of this business. These enable us to retain a "franchise from society" to serve Hong Kong as an essential service provider. Smooth and timely implementation of the inter-government MOU on energy supplies to Hong Kong is critically important for CLP to maintain reliability of power supply and to meet tightening environmental regulations. Support from both the Central People's Government and the HKSAR Government remains critical in ensuring that the aims of the MOU are translated into reality. In addition to the challenges of implementing the MOU, the HKSAR Government's proposal to shift Hong Kong's generation mix towards more nuclear and gas by 2020 has major implications for additional investment in generation and transmission facilities in Hong Kong and the Mainland. The scale of such investment will be substantial. It will require the

application by CLP of all of its expertise and experience as well as strong funding support from our capital providers. I am wholly confident about the former. I am equally confident about the latter, provided that the ongoing regulatory framework within which we operate supports and facilitates this.

Beyond Hong Kong

In Australia, TRUenergy's successful bids for the EnergyAustralia Retail electricity and gas business and the Delta Western GenTrader contract position us well in the ongoing power industry consolidation. Uncertainties remain with respect to the Federal Government's future carbon policy. We still face the challenging task of managing and mitigating the operational and financial impact of any carbon pollution reduction scheme on our brown coal-fired power station at Yallourn. I have previously remarked that, over time, TRUenergy will need external capital in some shape or form, if it is to fully participate in ongoing growth within the Australian market. This remains the case. I am aware that there has been market and media speculation that TRUenergy might be taken towards a listing (an initial public offering – "IPO") on the Australian stock exchange in the near term. Whilst this is one of the future funding options which we will consider, we do not yet have any specific plans in this regard. In the coming months, Management's priority must be excellence in the financial and operational performance of the TRUenergy business, including a smooth and rapid integration of the assets acquired in NSW, following completion of these transactions in March 2011. The quality of TRUenergy's business is an essential precondition to the successful procurement of external capital, whichever route is taken to do so.

In the Chinese mainland, our strategy is to further consolidate and rationalise our coal-fired projects and to continue the pursuit of clean and renewable sources. These will be predominantly wind energy and hydropower, with an emphasis on the development of majority-owned wind projects and expansion phases of selected minority-owned wind projects. The sale of CLP's majority shareholding in the Anshun II coal-fired power station and the forthcoming commissioning of our 330MW hydropower project in Jiangbian are examples of implementation of both sides of our strategy. I would also highlight the progress made in our wind energy portfolio, as evidenced by the significant contribution that this made to earnings from the Mainland in 2010.

CLP also has a particular opportunity to contribute to the growth of nuclear energy in the Chinese mainland. In doing so, we are aligned with the Central People's Government's goal of substantial growth in nuclear power in the Mainland and the Hong Kong Government's proposal to increase the proportion of the HKSAR's electricity needs to be met by nuclear energy. Our investments in nuclear power stations whose energy will supply Hong Kong would support our core electricity business through the delivery of clean, reliable and cost-effective power. Investment in other nuclear stations, which I expect will be mainly in Southern China, would allow shareholders to benefit from CLP's unique and longstanding relationships and reputation in the Mainland's nuclear industry. Although the long-term business regulatory framework and tariffs level which would apply to future nuclear plants in the Mainland are not yet settled, the strong policy support for substantial and rapid expansion of the Mainland's nuclear generation fleet, combined with the increasing cost-competitiveness of nuclear generation compared to conventional coal-fired generation, may offer good prospects for reasonable returns to shareholders over time from such investments.

I remain convinced that India presents significant long-term development opportunities for CLP. I do not use this as diplomatic language for implying that the short to medium-terms will not see promising results. On the contrary, our wind energy portfolio is growing strongly – we have more wind power under development, under construction, or in operation in India than in any of our other markets. The performance of our gas-fired power station in GPEC has been good and, as regards safety, excellent when measured against the highest standards in the world. Our 1,320MW greenfield coal-fired power station project at Jhajjar is making good progress toward scheduled commissioning by May 2012. Our management and organisational capabilities have steadily strengthened to the point where I believe that we have all the necessary skills and capabilities to be a significant and effective competitor in the Indian electricity sector. We will also remain a disciplined competitor – concentrating our attentions on reforming States, bidding for projects on a rational basis and holding back from projects and investments which we do not consider have the right risk/reward profile over time. At some stage, the growth of this business may well make demands on CLP Holdings' capital on a scale which causes us to look for other sources of funding. As with our TRUenergy business, a variety of options will be explored, including the possibility of a future listing on the Bombay Stock Exchange. However, for the time being, I believe that CLP India's business needs to reach a higher degree of maturity in terms of the scale, earnings and diversity of its operating assets before any IPO falls for active consideration.

We have said before in relation to Southeast Asia that we needed either to increase our influence within EGCO or to review our investment. We seriously considered the potential to become a majority shareholder in EGCO. However the challenges to

achieving such an outcome were such that we have taken the strategic decision to divest our interest. That decision was also influenced by competing demands for capital in both Southeast Asia and the Group. Against this background we sold our interest in EGCO in February 2011. We retain a good working relationship with Mitsubishi Corporation with whom for example we are looking at development projects in Vietnam. Opportunities for growth in the region do exist. The 55MW solar energy project at Lopburi in Thailand, which CLP has developed, holds a one-third stake and manages the project, is one of the largest solar energy projects in the world. The experience at Lopburi will serve CLP in good stead in developing solar energy projects elsewhere – a valuable capability given the likelihood that improving solar technology and targetted government support may well mean that solar energy can play an increasing role within a balanced and diversified renewable energy portfolio.

A Long-term Vision

The power industry is capital-intensive. It demands large-scale investments made for the long term in assets which may take several years to generate electricity and, therefore, earnings. CLP has become one of the leading investor-operators in the Asia-Pacific electric power sector. In the circumstances, to add significantly to our overall earnings, we need to make substantial new investments. This demands the continued optimisation of our financial and capital structure. We will pursue the growth strategy, which I have outlined above, without placing undue strains on our financial position or eroding our firepower to pursue investment opportunities which may present themselves – especially when such opportunities may not arise at times of our own initiative or preference. I am satisfied that we have the capital available to implement our strategy, strong support from our capital providers whether shareholders or lenders, and the capacity to secure additional capital, including by the further sell-down of selected assets outside Hong Kong, to pursue emerging investment opportunities, provided that these are aligned with our overall strategy and are of the quality we require.

In last year's Annual Report, I cautioned that the implementation of CLP strategy and our vision for 2020 would be impacted by incoming disruptive change in our industry, including the speed of economic and social development in different Asian countries, the effect of climate change and societies' responses to this threat, technological advances and regulatory changes. I also recognised that our ability to influence these changes will vary, although our experience in our industry and in this region equips us to detect trends and to proactively adapt to or exploit them. I joined CLP as CEO in May 2000. The experience of my past decade with the Company, the performance of our business in the past year and the potential for growth in all our markets all give me confidence that we remain on track to turn our 2020 Vision into reality.

Andrew Brandler

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Hong Kong, 24 February 2011



Our veteran midfield general – ballwatching on this occasion