



PERFORMANCE AND BUSINESS OUTLOOK

How have we performed against our strategy? What opportunities and challenges will influence our future performance?

Here we offer an integrated and wide-ranging view of CLP's financial, operational, environmental and social performances in the five markets in which we operate

HONG KONG

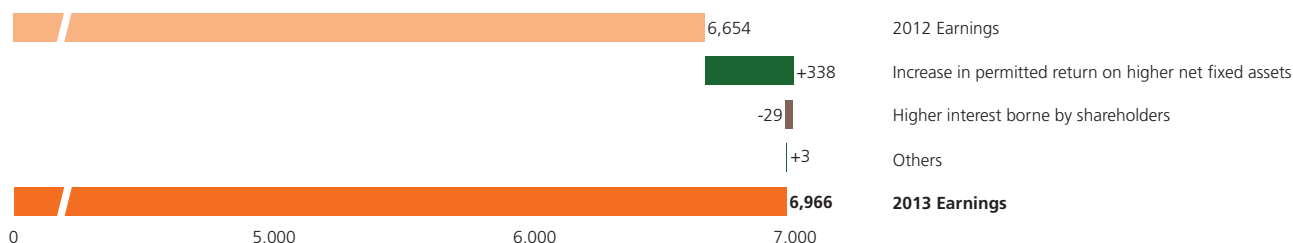
CLP is a vertically-integrated regulated electricity provider serving over 80% of the population



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. It was mainly due to the increase in permitted return from a higher level of average net fixed assets.

Hong Kong Earnings (HK\$M)



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 half 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 diversified 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

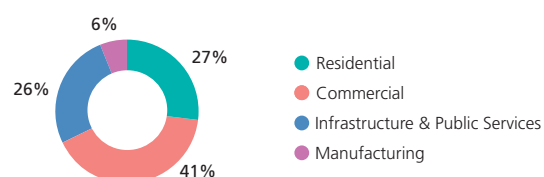
One of the key cornerstones by which we measure our performance is our ability to meet demand for electricity in Hong Kong, every day of every year. This was again achieved in 2013.

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.

Local Sales

		Increase / (Decrease)	
Residential	(242GWh)	↓	(2.7%)
Commercial	18GWh	↑	0.1%
Infrastructure & Public Services	70GWh	↑	0.8%
Manufacturing	(58GWh)	↓	(3.1%)

As Percentage of Total Local Sales



Sales to the Chinese mainland amounted to 1,650GWh, 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 33,433GWh.

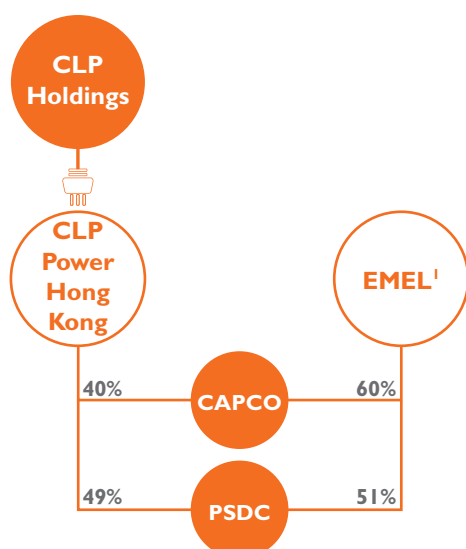
Increasing Our Stake in CAPCO

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. Separately, CLP Power Hong Kong will also purchase ExxonMobil's 51% stake in Hong Kong Pumped Storage Development Company, Limited (PSDC). The acquisitions are expected to be completed in the middle of 2014.

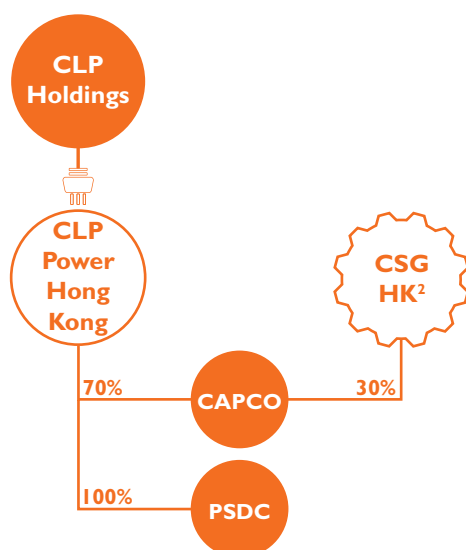
The transaction not only provides us with greater control over our asset portfolio, but further strengthens our strategic relationship with CSG through our joint shareholding in CAPCO. This paves the way for potential new business opportunities for both CLP and CSG in Hong Kong and Southern China.

Shareholding Structure of CAPCO and PSDC

Before Transaction



After Transaction



Notes:

1 ExxonMobil Energy Limited

2 China Southern Power Grid International (HK) Co., Limited

Concluding the 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 (EE&C) 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, involving a capital expenditure of HK\$41.6 billion. This includes the completion of our Emissions 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.

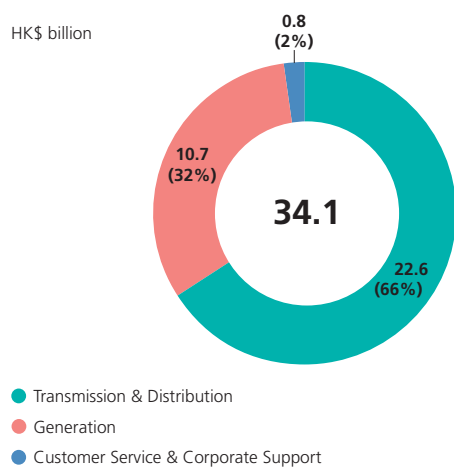
In December 2013, we received approval from the Executive Council for our 2014-2018 Development Plan, which projects a capital expenditure of HK\$34.1 billion over the period from January 2014 to September 2018.

Although the HKSAR Government's fuel mix consultation is expected to launch in the first half of 2014, no new generation plant was included in the new Development Plan. 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 Development Plan, 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.

Capital Expenditure Approved for 2014 – 2018 Development Plan



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 Development Plan. 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 WEP11 to BPPS marked a major step in the implementation of the Memorandum of Understanding (MOU) on energy cooperation 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 WEP11 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 with CNOOC on alternative offshore gas supplies. For the Shenzhen LNG Terminal Project, we continue to collaborate with PetroChina and Shenzhen Gas, our joint venture partners, to finish all necessary work in order to submit the project approval application to China's National Development and Reform Commission (NDRC) in 2014.

Importing More Nuclear Energy

Guangdong 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 on page 9, CLP achieved its best record on supply reliability of less than 2 minutes of unplanned power interruptions 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 practise the rapid assembly of pylons should a 400kV tower require 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 the occurrence of voltage dips and mitigate impacts on customers, CLP continued to install lightning protection on our transmission and distribution facilities and customise 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

Reliability Levels in Hong Kong, New York, Sydney, London and Singapore

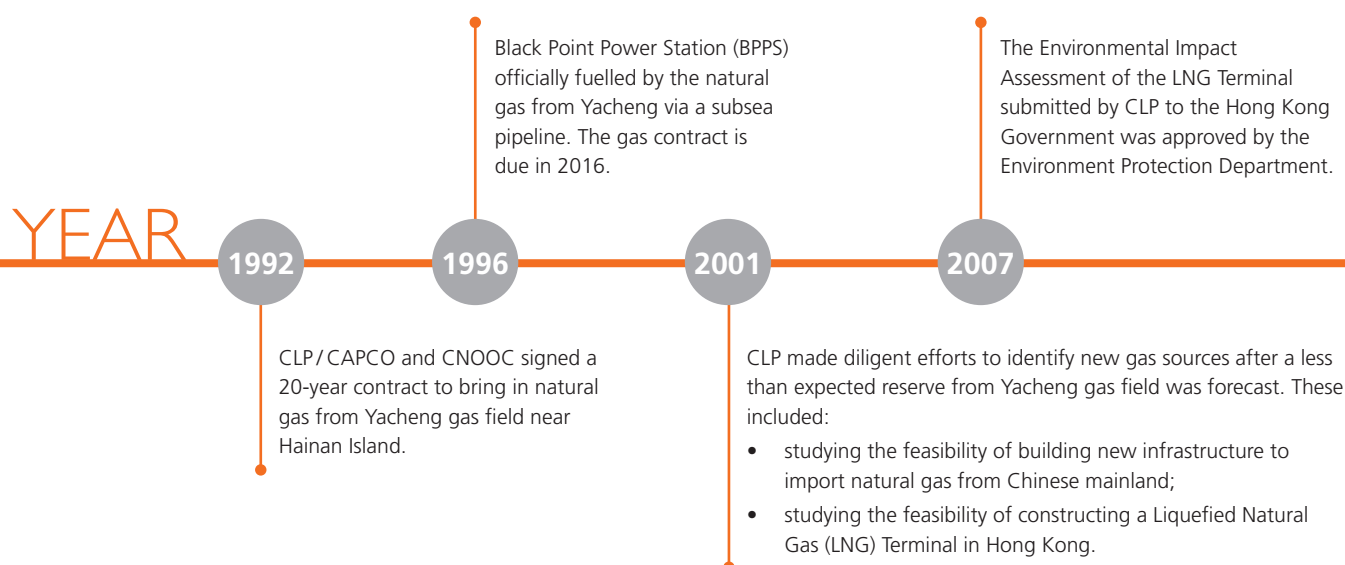
Unplanned customer minutes lost per year




Notes:

- 1 2011 – 2013 average for CLP Power Hong Kong
- 2 2010 – 2012 average for all other cities (the latest available data)
- 3 Singapore's power supply network is mostly underground, and is less exposed to the influence of weather and other external interferences than overhead lines.

Timeline for CLP importing Natural Gas



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 Customer Services Improvement Plan with 38 initiatives. These included progress tracking services for customer applications and consumption alert for targeted residential customers and small-to-medium enterprises. We also successfully rolled out a new web-based platform to enhance our capabilities and productivity in 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 CLP Data Centre Symposium attracted over 150 customers, business partners and stakeholders;

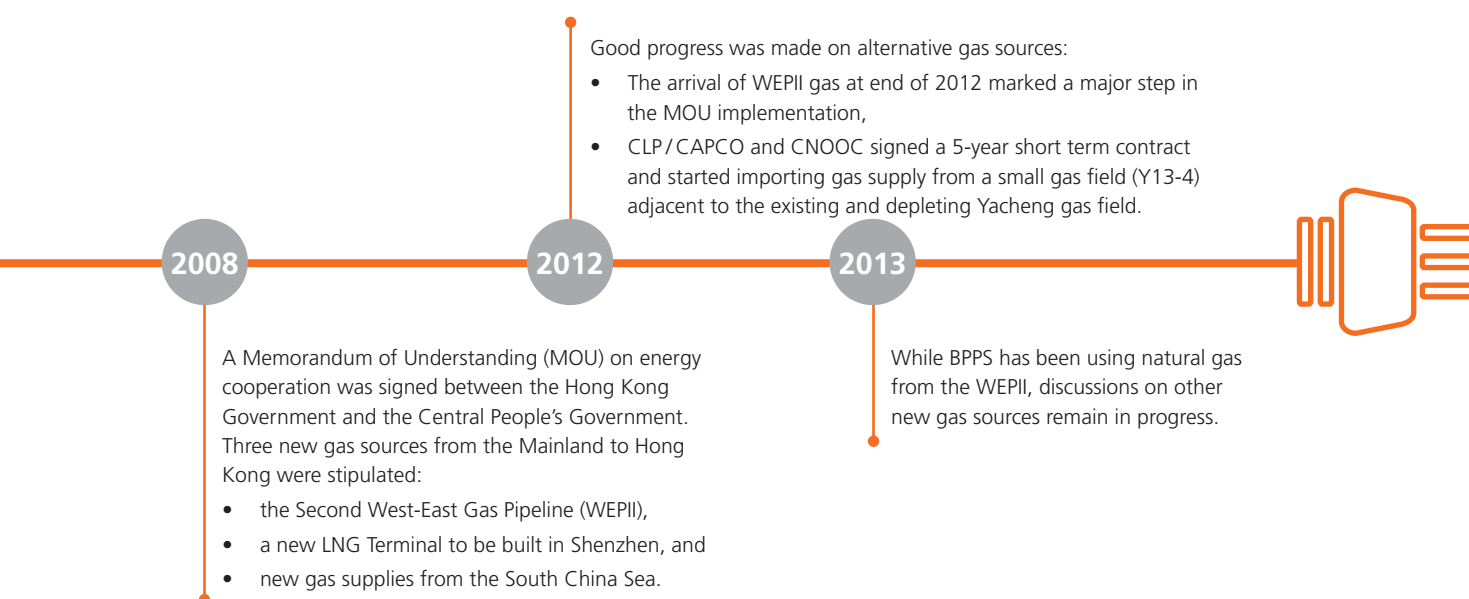
- Over 4,000 customers benefited from our 62 Eco Ambassador outreach programmes;
- Since March 2013, over 5,000 people visited CLP’s Eco Home and EE&C Education Centre; and
- CLP’s Smart Grid Experience Centre has received over 8,300 visitors since its opening in 2011.

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 importing small quantity of additional power 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.



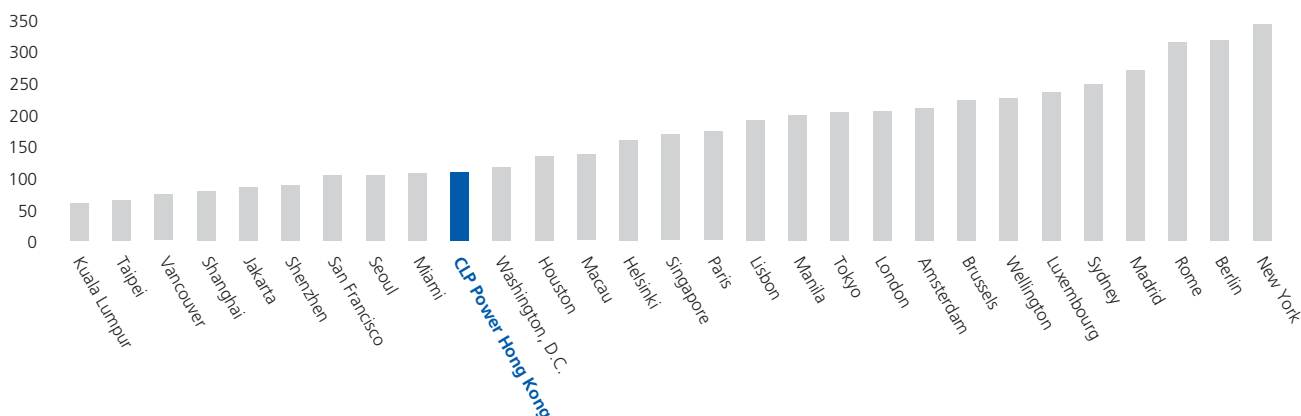
Rent and Rates

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.

Residential Tariff Comparison with Other Cities

Residential Tariff
HK cents / kWh (as of January 2014)



Notes:

- 1 Comparison based on average monthly domestic consumption of 275 kWh.
- 2 Tariff and exchange rate at January 2014.

Source: Web Search



Mr Chung Ka Kui, Ken
Engineer Trainee,
CLP Power Hong Kong

As CLP implements its own smart grid pilot project, what kind of benefits does CLP expect to provide to customers through Advanced Metering Infrastructure (AMI)?

AMI is an integrated system of smart meters, communication networks, and data management systems that enable two-way communication between utilities and customers. On top of further improving the safety and reliability of energy supply, AMI helps customers lower their bills by providing targeted advice about their electricity consumption and email/text to alert them when certain thresholds have been met.

CLP launched an 18-month AMI pilot programme in May 2013 and invited about 3,000 residential customers and 1,400 small-to-medium business customers to join. So far around 75% of pilot customers have visited their online accounts, and around 15% have downloaded the Mobile App, with 5% setting consumption alerts. Last summer, ahead of one of the hottest days, we sent alerts to our pilot customers and asked them to reduce energy consumption during the peak hours in the evening. As a result, we saw demand reduced by approximately 20% that day, which translated into about 0.2-0.3kW per customer.



Chow Tang Fai
Chief Operating Officer
CLP Power Hong Kong

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 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 the 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 meets 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 emissions 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 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 in the south eastern waters of Hong Kong near the Ninepin Islands. Due to its offshore location, there are many technical challenges that must be more thoroughly assessed to confirm the project's economic feasibility.

Environmental Regulatory Compliance

In 2013, 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.



⚙️ CLP Volunteers provide rewiring service for the elderly living alone

Social Performance

Stakeholder Engagement

In 2013, CLP mapped out and implemented a multi-pronged stakeholder engagement plan. We also continued our regular briefings, seminars, workshops and shareholder visits. The invaluable comments collected from these engagements activities have enabled us to understand better and respond promptly to our customers' needs.

Through our stakeholder engagements we understand that nuclear safety remains a concern for the community. We continue to organise activities to enhance public knowledge and understanding of nuclear-related matters. The CLP Nuclear Resources Centre, which provides comprehensive information on nuclear energy, received over 6,200 visitors.

Community Initiatives

Our success as a business is closely aligned with the well-being of the community we serve. In Hong Kong, our community initiatives focus on three areas: the environment, youth and education, and community well-being. We work closely with local NGOs and community groups to identify evolving societal needs and to devise programmes that will have the best and longest-lasting impact.

In 2013 CLP launched the "CLP Green Volunteers for Seniors Programme" whereby CLP Volunteer Teams will join hands with 13 community partners to give out 6,000 LED light bulbs to the elderly in our supply areas. During the year, we initiated and supported over 250 community initiatives in Hong Kong. Some highlights are listed below.

Identifying Evolving Societal Needs and Devising Programmes with Long-lasting Impact

ONE-OFF COMMUNITY CARE SUBSIDY



Close to **10,000** grassroots families benefited from a subsidy of HK\$300 to alleviate tariff pressures

LIBERAL STUDIES



Promoted energy education through www.LS-energy.hk, Hong Kong's first comprehensive and free learning kit. About 130 schools, **1,500** students and 180 teachers registered



HOTMEAL CANTEEN



Served over **31,000** hot meals in 2013 and launched a pilot **Hotmeal Delivery Service**

CLP VOLUNTEERS



Contributed over **10,000** hours

HERE WEEE* GO



12,500 used electrical appliances collected
CLP volunteers helped deliver over 430 refurbished appliances to 200 needy families from 2010 to 2013

* Waste Electrical and Electronic Equipment
Note: Here WEEE Go is a pilot programme

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 Development Plan 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 WEPII 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 Development Plan;
- 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 the 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.

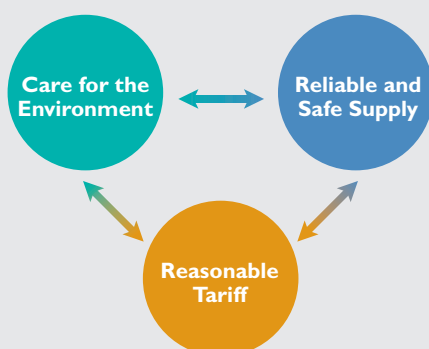
Over the longer term, our priorities include:

- 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 cooperation 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.

**More Q&As about our
Hong Kong Business**



Energy Trilemma



CLP is part of Hong Kong and we understand well that electricity tariffs have to be reasonable and competitive. At the same time, there have been unprecedented challenges in fulfilling the society's expectations for a reliable and safe electricity supply, produced in an environmentally responsible way and at a reasonable cost. These three core policy ingredients comprise what is known as the "Energy Trilemma".

AUSTRALIA

EnergyAustralia is a major integrated energy provider operating both retail and wholesale businesses



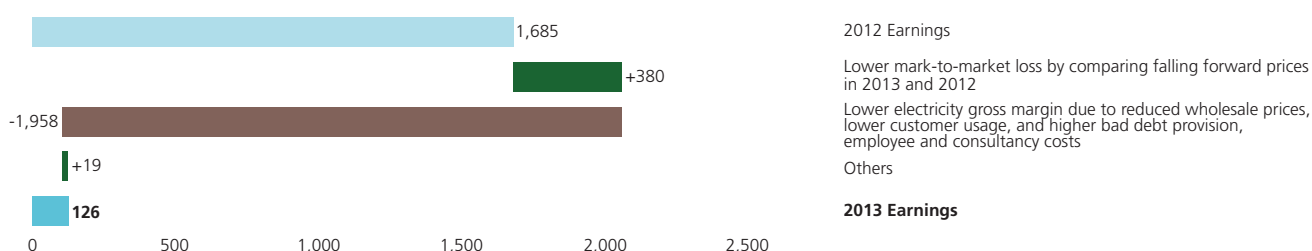
Financial Performance

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 (Yallourn) 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.

Australia Earnings before One-off Item (HK\$M)

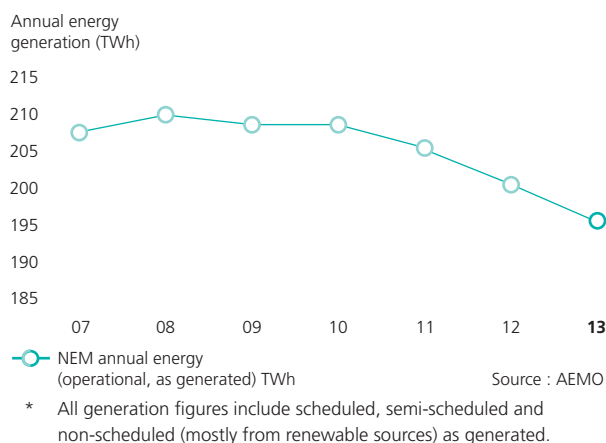


Operational Performance

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.

National Annual Energy*



Since 2008, we have witnessed an unprecedented decline in electricity demand. Such a sustained decline in electricity use 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; and
- 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% market 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 oversupplied 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 LNG export projects. The exploitation of unconventional gas to meet export demand is also resulting in an increase in input costs above historic 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 will be available to return to service at a three-month notice.

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 has 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 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 reinstatement 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 respectively 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.

Electricity demand has been consistently falling across Australia over the last 4-5 years. This is putting pressure on both the generation and retail sectors, and EnergyAustralia is exposed to both. How does the company see the outlook, the likely impact on earnings and how are you planning to respond to this unprecedented change?



Mr Tony Wood
Energy Program Director
Grattan Institute, Australia

Our key priority is to reduce costs and improve earnings. This will include integrating our legacy customer base, currently serviced by Ausgrid, onto the new C1 platform. The integration is scheduled for late 2014, after which the business will realise operational cost savings from servicing all 2.7 million customers on one system. The new system will not only reduce our costs but will also improve our responses to customers. We have already started this process with the introduction of eWise and time of use products in Victoria.

On the generation side, we continue to take steps to optimise and re-align our generation cost base in line with changes in electricity consumption patterns. Our recent decision to reduce operations at Wallerawang is one example of this. Through these and other cost reduction projects, we are tackling the market challenges head-on and developing the level of capability we need to meet the new market realities.

We will continue to assess market conditions and will actively review the optimum size, operating strategies and holding structure of our generation portfolio in light of these conditions.



Richard McIndoe
Managing Director – EnergyAustralia

Wholly or Partly-Owned by EnergyAustralia

Asset / Station	Installed Capacity (MW)		Generation (GWh)		Utilisation ¹ (%)		Availability ¹ (%)		Operating Hours ²	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Power Stations										
Hallett	203	203	73	6	4	0.3	86	94	7,885	830
Tallawarra	420	420	3,115	2,758	85	75	94	96	8,507	8,352
Yallourn	1,480	1,480	8,525	8,965	74	78	75	88	26,030	27,285
Mount Piper	1,400	1,400	8,914 ³	7,942 ³	92	92	91	88	16,101	16,123
Wallerawang	1,000	1,000	4,073 ³	4,692 ³	75	88	78	85	13,094	15,461
Wilga Park	16	16	–	–	–	–	–	–	–	–
Gas Storage Facility	Installed Capacity (Terajoule / Day)		Throughput (Petajoule)		Utilisation (%)		Availability (%)		Compressor Hours	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Iona	500	500	51	50	36	36 ⁴	99	98	30,820	29,431

Notes:

- In this table and elsewhere, "availability" is the extent to which a generating unit is made available by its operator for generation to the grid system, whereas "utilisation" is the extent to which the unit actually generates as compared to its rated capacity applied over the period in question.
- Reflects the total hours of operation by all units at the station in the year
- Net Generation at node
- Iona changed the methodology in calculating utilisation in 2013 to account for double compression. The 2012 figure has been recalculated under the new methodology and is therefore different from the one stated in our 2012 Annual Report.

Wind Farms	Installed Capacity (MW)	Number x Wind Turbine Size	Generation at Farm Gate (GWh)		Availability (%)		Wind Speed (m/s)	
			2013	2012	2013	2012	2013	2012
Cathedral Rocks	66	33 x 2MW	194.7	179.7	90.3	91.4	8.4	8.1
Waterloo	111	37 x 3MW	296.6	330.4	95.2	97.3	8.4	8.5

Generating Capability under Contract to EnergyAustralia

	Installed Capacity (MW)		Net Generation (at node) (GWh)	
	2013	2012	2013	2012
Ecogen				
Newport and Jeeralang	966	966	171	241

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.

Key Achievements in Customer Engagement



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 did encounter some environmental challenges in 2013. A flood on 14 June 2013 resulted in floodwaters exceeding the capacity of the diversion repair bypass pipeline system, diverting 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 CLP operates 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 in EnergyAustralia.

Environmental Regulatory Compliance

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

Social Performance

Stakeholder Engagement

Last year was characterised by substantial political and economic uncertainty in Australia. Businesses faced three different prime ministers in a 12 month period along with a number of changes in leadership at State Government level. Notwithstanding this, EnergyAustralia recognises the importance of maintaining positive relationships across all levels of government to actively participate in policies that have the potential to impact our operating environment and business. In 2013, significant effort was made by EnergyAustralia in positioning itself as a "thought leader" on key policy issues in the energy sector, including gas market reform and electricity market sustainability.

In spite of this challenging political environment, encouraging progress was made in the regulation of retail prices. The South Australian Government deregulated retail prices in February 2013 and the Queensland Government committed to removing price regulation from July 2015 subject to the retail market being competitive. The Australian Energy Market Commission also conducted a review of retail competition in NSW and recommended the removal of price regulation. EnergyAustralia remains optimistic that the NSW Government will adopt this recommendation in time.

We also continued discussions with the NSW Government on coal seam gas regulation. In Victoria, we continued to work with the Government to deliver the benefits of smart meters.

Community Initiatives

EnergyAustralia continues to work to create shared value for the communities in which it operates. This approach helps build its reputation as a trusted local operator and as a force for positive change. In 2013 EnergyAustralia's community initiatives focused on those affected by bushfires in Tasmania and NSW, the homeless and swimming safety for children. Some of our highlights are listed below.

Creating Shared Value for the Communities in which EnergyAustralia Operates

SUPPORT TO THE HOMELESS



Supported St Vincent de Paul's Homelessness Programme:

- Donated **A\$150,000** for the purchase of 3 new soup vans

- Raised

A\$36,775

at "CEO Sleep Out"

LEARN TO SWIM



Continual partnership with Swim Australia on **Learn to Swim** and **SwimSAFER** to promote swimming safety

BUSHFIRE RELIEF



With staff donation and matching from

EnergyAustralia, **A\$10,000** was donated to **Red Cross NSW Bushfire Appeal** and **NSW Rural Fire Services** for NSW bushfire relief

Another **A\$50,000** was donated to support the **Red Cross Tasmania Bushfire Appeal**

COMMUNITY ENGAGEMENT IN WATERLOO



Regular meeting with the Waterloo Community Liaison Group

An annual support of

A\$20,000

to the **Community Benefit Fund**



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. 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 Government has committed to repeal the Clean Energy Act and associated regulations by 1 July 2014. The expected removal of the carbon compensation will have a financial impact on EnergyAustralia in 2014 and 2015. The Government has also committed to conducting a review of the RET in 2014, in which EnergyAustralia will actively participate.

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.

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.

More Q&As about EnergyAustralia



CHINESE MAINLAND

We are one of the largest
external independent power
producers focusing on clean
energy generation



Financial Performance

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

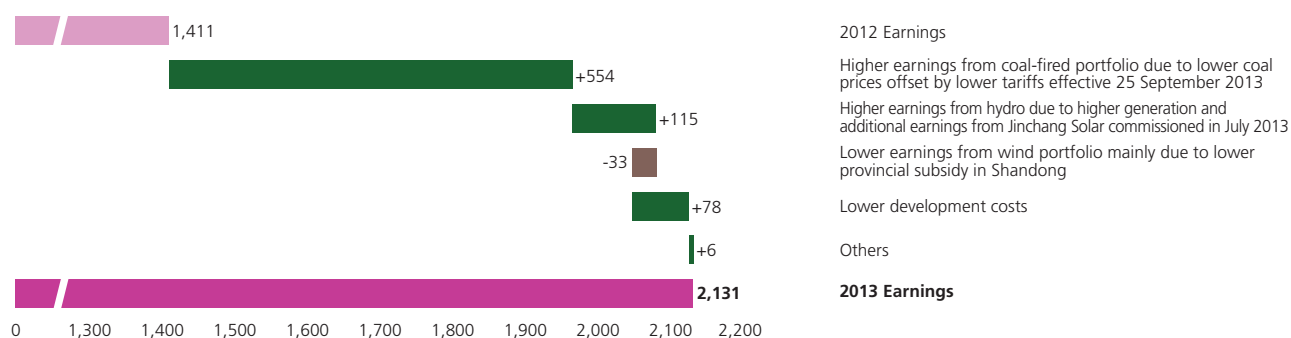
Earnings from our 25% stake in Daya Bay, 70% of the output from which serves our Hong Kong electricity business, remained steady in 2013.

Earnings from coal-fired projects increased by 89% as a result of lower coal prices, partially offset by a tariff reduction effective 25 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 Solar Power Station (Jinchang Solar), 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 Power Station (Boxing Biomass) resulted in a loss of HK\$75 million.

Chinese Mainland Earnings before One-off Item (HK\$M)



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 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 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.

Coal-Fired Power Stations – Performance

Station	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2013	2012	2013	2012	2013	2012	2013	2012
Fangchenggang	1,260	6,142	6,085	56	55	87	90	4,875	4,830
Shiheng I & II	1,260	6,629	6,319	60	57	90	89	5,261	5,015
Heze II	600	3,376	3,310	64	63	92	93	5,626	5,516
Liaocheng I	1,200	6,656	6,909	63	66	88	88	5,547	5,757
Panshan	1,030	6,024	6,092	67	67	91	93	5,849	5,914
Sanhe I and II	1,300	7,693	7,410	68	65	93	97	5,918	5,700
Suizhong I and II	3,600	15,421	16,506	49	52	98	92	4,283	4,585
Yire	400	2,238	2,344	64	67	93	95	5,596	5,860
Zhungeer II and III	1,320	6,978	6,605	60	57	94	97	5,287	5,004
Shenmu	220	1,311	1,367	68	71	97	97	5,961	6,215



Mr Cha Zhengfa
Chairman,
Zhenfa New Energy

What is CLP's strategy and plan in clean energy investment in the coming three years, particularly in China's solar energy market?

Supported through the policy development of the National Energy Administration, the Chinese mainland continues to be a world leader in installed renewable energy capacity as it moves towards a more sustainable energy path. CLP's own climate strategy to reduce the carbon intensity of our generation portfolio is consistent with this. As part of this, we will continue to consolidate and rationalise ownership of our minority-owned coal-fired assets and to invest in renewable energy projects.

We are already one of the largest external investors in wind energy in the Mainland. With the growing maturity of solar photovoltaic technology, a significant reduction in solar panel prices and China's feed-in tariffs for solar power stabilising at a relatively attractive level, we will continue to explore solar investment opportunities in regions with good solar energy resources and strong local power demand.



Chan Siu Hung
Managing Director – China

Wind

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 achieved commercial operation in January 2014. 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.

Wind Energy Portfolio – Performance

	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)	
		2013	2012	2013	2012
Minority-owned					
Changdao	27.2	51.0	50.4	21.4	21.1
Changling II	49.5	94.3	51.7	21.3	11.9
Datong	49.5	68.0	60.8	15.7	14.0
Hekou	49.5	98.2	101.2	22.6	23.3
Laizhou	40.5	72.9	72.5	20.6	20.4
Lijin I	49.5	83.4	88.4	19.2	20.3
Lijin II	49.5	93.5	99.7	21.6	22.9
Mazongshan	49.5	98.3	89.7	22.7	20.6
Nanao II	45.1	102.0	117.4	25.9	29.4
Nanao III	15.0	30.5	37.9	23.2	28.6
Qujiagou	49.5	87.5	77.1	20.2	17.7
Rongcheng I	48.8	89.3	97.1	20.9	22.7
Rongcheng II	49.5	94.2	112.0	21.7	25.8
Rongcheng III	49.5	96.3	107.3	22.2	24.7
Shuangliao I	49.3	72.8	46.0	16.9	10.6
Shuangliao II	49.5	85.0	79.0	19.6	18.2
Weihai I & II	69.0	140.8	137.0	23.3	22.6
Zhanhua I	49.5	97.8	98.6	22.5	22.7
Zhanhua II	49.5	105.0	105.3	24.2	24.2
Chongming I	48.0	129.8	n/a ¹	30.9	n/a ¹
CGN Wind JV(15.75%)					
CGN Wind Portfolio ^{2,3}	1,794	3,419	3,043	21.8	20.5
Wholly-owned					
Qian'an I	49.5	87.0	85.8	20.1	19.7
Qian'an II	49.5	100.3	88.2	23.1	20.3
Penglai I	48.0	100.8	97.7	24.4	24.1

Notes:

- 1 n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.
- 2 CGN Wind JV completed a restructuring in January 2013. Its gross capacity under operation and construction has been reduced from 1,878MW to 1,794MW. The total capacity of CGN Wind JV under operation stated here is that following this restructuring.
- 3 The utilisation applies to projects with full-year operation in the JV.

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.

Solar Energy Project – Performance

	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2013	2012	2013	2012	2013	2012	2013	2012
Jinchang Solar	85	100 ¹	n/a ²	23 ¹	n/a ²	100 ¹	n/a ²	1,000 ¹	n/a ²

Notes:

1 Reflects data since commissioning in July 2013

2 n/a (not applicable) is for projects which had not yet commissioned for a full year's operation.

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 and Jiangbian in Sichuan 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 in 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.

Hydro and Biomass Portfolio – Performance

	Installed Capacity (MW)	Generation (GWh)		Utilisation (%)		Availability (%)		Operating Hours (Hours)	
		2013	2012	2013	2012	2013	2012	2013	2012
Boxing Biomass ¹	15	35	83	28	53	41	76	2,005	4,715
Dali Yang_er Hydro	50	141	126	32	29	87	76	2,826	2,522
Huaiji Hydro	125	485	452	44	41	92	94	3,874	3,613
Jiangbian Hydro	330	1,539	1,225	53	42	89	89	4,663	3,713

Note:

1 Performance up to and including 31 October 2013.

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 Central People's Government issued a new air pollutant emissions standard for existing thermal power plants which will come into effect on 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 Bureau'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 Chinese mainland from Fangchenggang to Jiangbian in 2013. Please refer to the "Natural Capital" section and our [2013 Sustainability Report](#) for additional details. 

Environmental Regulatory Compliance

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

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 on our business in the Chinese mainland. 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.



 The Hon CY Leung, Chief Executive of the Hong Kong SAR, visits Fangchenggang Power Station with a trade delegation, complimenting the successful development of Hong Kong businesses in the Mainland

Social Performance

Stakeholder Engagement

As one of the largest external energy investors in the Mainland, and following the change in leadership of the Central People's Government in 2013, our Chairman and senior executives met Vice President Li Yuanchao and the Director of National Energy Administration in Beijing in September. In November, Chief Executive of the HKSAR Government, the Honourable CY Leung led a Hong Kong trade delegation to visit our power plant in Fangchenggang.

Community Initiatives

Our community initiatives in the Mainland focus on youth education and the environment, both of which are priorities of the Government. In 2013, we also made donations to support relief of natural disasters in Sichuan, Jilin and Guangdong. Employee volunteering remains one of the key platforms for CLP to engage with local communities, which are becoming varied as the geographical reach of our assets spread. Some of our 2013 highlights are described below.

Engaging Communities through Employee Volunteerism

YOUTH EDUCATION AND DEVELOPMENT



Provided financial assistance to **460** students at **11** schools in **4** Provinces through Support-a-student Programme

Our **Hope Kitchen** in Ganxi Central School, Guizhou became fully operational, serving over **700** students and faculty members on a daily basis

CLIMATE CHANGE AND THE ENVIRONMENT



Planted over **38,000** black pines and orientalis near our wind farm in Penglai, Shangdong

Supported Shandong Government's initiative to provide more than **200** village residents with daily access to fresh water

Supported the Guangxi Government's campaign to improve Fengshan County's countryside ecology and water quality through a sponsorship of

RMB500,000



DISASTER RELIEF



Staff and company donated **HK\$380,000** in response to the earthquakes in Yan'an (Sichuan Province) and Songyuan (Jilin Province) respectively

CLP Huajji donated **HK\$75,000** to restore the irrigation systems and pathways destroyed by the flooding in Zhongzhou and Xiazhu Township in Guangdong

CLP VOLUNTEERS



Delivered donated clothes to poverty-stricken areas in Fangchenggang as well as food supplies to a community food bank for the underprivileged in Nanning, Guangxi

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;
- 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 Jinchang 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 Fangchenggang II;
- 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.



INDIA

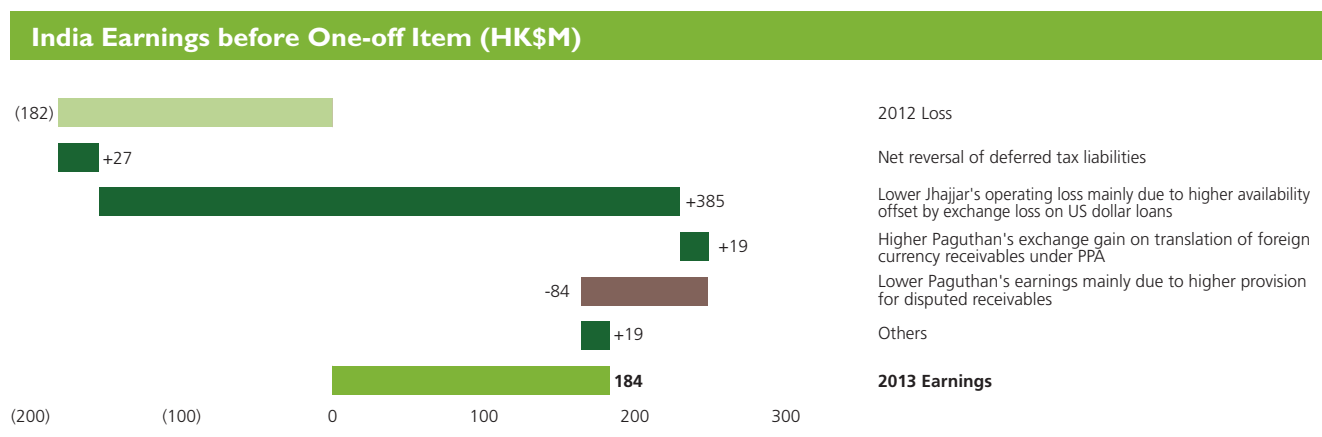
CLP India is the leading foreign independent power producer and the largest wind project developer



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 US 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.

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 both 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%.

Performance of Jhajjar in 2013 first half and second half

Particulars	2013 H1	2013 H2
Availability	38.7%	86.7%
Utilisation	30.6%	68.4%
Domestic Coal	302 rakes ¹	387 rakes
Imported Coal	60 rakes	215 rakes
Note:		
¹ A "rake" is the equivalent of about 3,800 tonnes of coal and broadly represents a single load of 59 wagons.		

Performance of Jhajjar

Month	Utilisation (%)	Availability (%)
Jan-13	30.5	30.3
Feb-13	38.6	38.8
Mar-13	36.5	36.6
Apr-13	32.1	32.0
May-13	30.9	46.4
Jun-13	15.9	48.5
Jul-13	65.3	85.8
Aug-13	59.5	79.2
Sep-13	77.6	92.5
Oct-13	55.5	70.0
Nov-13	75.2	94.6
Dec-13	77.6	98.3
Average	49.6	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-gasified 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 the electricity industry, 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 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 in the electricity industry and wind energy producer with an operating portfolio of over 1,000MW.

Wind Energy Portfolio – Status and Performance

Project	Installed Capacity (MW)	Commissioned / To be Commissioned (MW)	Forecast Full Commissioning Date	Utilisation (%)	
				2013	2012
Samana I	50.4	50.4	–	21.0	23.5
Samana II	50.4	50.4	–	23.8	26.2
Saundatti	72.0	72.0	–	24.1	23.1
Khandke	50.4	50.4	–	26.6	24.1
Theni I	49.5	49.5	–	25.3	32.2
Theni II	49.5	49.5	–	23.0	30.6
Andhra Lake	106.4	106.4	–	24.8	21.4
Harapanahalli	39.6	39.6	–	28.7	29.7
Sipla	50.4	50.4	March 2013	n/a ¹	n/a ¹
Bhakrani	102.4	76.0 / 26.4	March 2014	n/a ¹	n/a ¹
Tejuva	100.8	0 / 100.8	NTP not yet issued ²	n/a ¹	n/a ¹
Mahidad	50.4	33.6 / 16.8	September 2014	n/a ¹	n/a ¹
Yermala	148.8	0 / 148.8	July 2015	n/a ¹	n/a ¹
Jath	130.0	0 / 130.0	July 2015	n/a ¹	n/a ¹
Total	1,051.0	628.2 / 422.8			

Notes:

1 n/a (not applicable): projects that had not been commissioned for a full year's operation.

2 NTP: Notice to proceed for construction

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. By combining revenue from those assets to create a common pool to service debt, this 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. As such, 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 be even 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 believed it was important to exercise some effort in assessing how climate change may 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 future wind farms 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

In 2013, 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.

Social Performance

Stakeholder Engagement

CLP India continues to engage State and Federal Government agencies responsible for policy decisions on areas affecting our business, including long-term availability and supply of adequate domestic coal to Jhajar, importation of coal to bridge the domestic supply deficit, regularisation of payments for our wind projects and improvements in the domestic gas supplies and allocation for Paguthan.

While we make representations on behalf of CLP India, the same are being supplemented through joint representations with leading industry associations, including the Association of Power Producers, Confederation of Indian Industry and Federation of Indian Commerce and Industry, of which we are members.



🔧 Increased coal supply has given Jhajar a significant boost

Community Initiatives

In consultation with members of the local community, government, financial institutions and NGO partners, CLP India continues to implement community initiatives that improve the quality of life for communities where our assets are located. Key programmes are focused on addressing health and education challenges and improving the livelihoods for residents of the ten villages near our Paguthan plant in Gujarat and the four villages near our power station at Jhajjar in Haryana. Some of the programmes are highlighted below.

Improving the Quality of Life for Communities where CLP India's Assets are Located

EDUCATION PROGRAMMES



At Paguthan:

Through the **Guest Faculty Programme**, CLP India employees volunteered as tutors and delivered lectures to over **100** students from a vocational training institute to enhance their employability

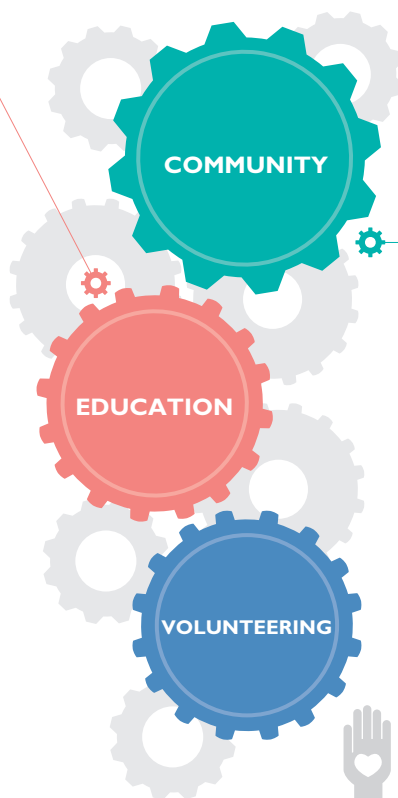
Encouraged **50** children to return to school through the **Informal Education Programme**

Provided direct financial assistance to **131** underprivileged students and donated school bags and stationery to **227** school children to lower their hurdle to return to school

Provided Computer Literacy Class to **95** students in partnership with Pratham

At Jhajjar:

Sponsored multi-media teaching systems in **4** primary schools to improve the learning efficiency for over **350** students



HEALTH PROGRAMMES



At Paguthan:

CLP India Extension Volunteers participated in a **Maternal and Child Health Programme** and assisted to encourage mothers to deliver their babies at medical facilities to reduce the risk of infection and mortality

At Jhajjar:

Partnered with Wockhardt Foundation to provide over **37,913** medical consultations through the mobile clinic programme since July 2011

Initiated healthcare training programmes including sponsoring **10** youths to enrol in a three-year paramedical course in professional medical training school

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 fuel supplies (including coal and gas), the financial health of distribution companies and the time-consuming processes for obtaining environmental clearances for new projects. As 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 fundraising options.



Mr Stephen Oldfield
Managing Director,
Global Infrastructure and Utilities Strategist
and Head of the Asia Utilities Research
team, UBS

How are you dealing with the fuel shortages that have been negatively affecting your Indian operations?

As highlighted by Jhajjar's much improved availability from 38.7% in the first half of 2013 to 86.7% in the second half, the domestic coal shortages faced by the power station have been addressed to a large extent by the permission to procure and blend imported coal as well as improvement in domestic coal receipts. We will continue to engage with various Government agencies and other stakeholders to improve domestic coal supplies and support a higher level of imported coal blending.

At Paguthan, while our gas-fired power station continues to face domestic natural gas shortages primarily due to a drastic drop in production at our principal domestic source, commercially it has been securing its capacity payments under the PPA by maintaining a high availability on alternative fuel sources. We will continue to work with the Government authorities concerned on securing adequate, reliable and reasonably-priced domestic gas supplies.



Rajiv Mishra
Managing Director – India

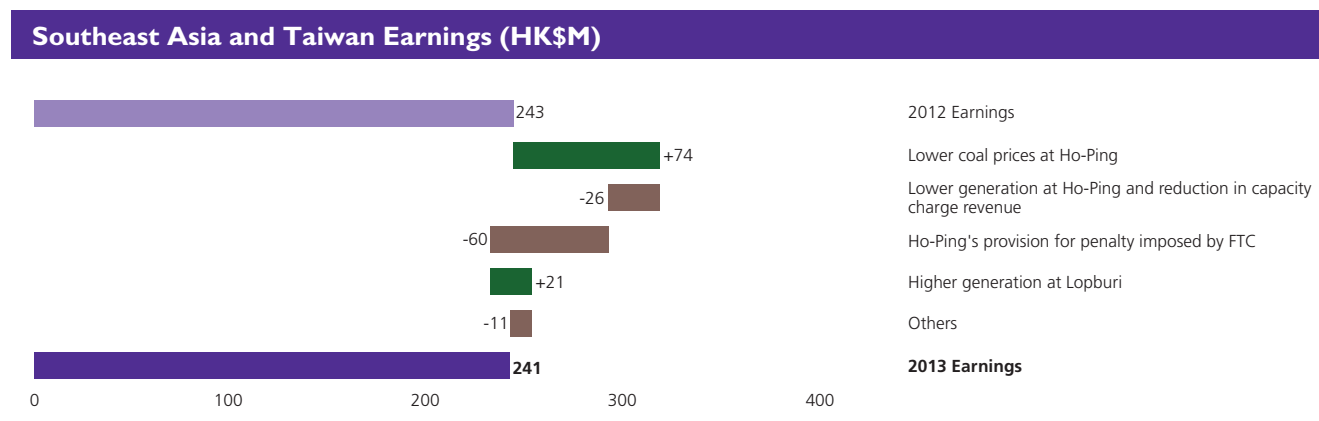
SOUTHEAST ASIA AND TAIWAN

We invest, develop and
operate solar and
coal-fired
power projects



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 Station (Ho-Ping) were mainly due to a HK\$60 million provision for a penalty imposed by the Taiwan Fair Trade Commission (FTC), lower generation because of a planned overhaul and reduction in capacity charge revenue, which were partially offset by lower coal prices. The decrease in earnings was compensated by higher contribution from the 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 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, 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 Executive Yuan 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. Discussions with potential lenders have commenced.

Development work on our second Vietnam project, Vinh Tan III, 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

In 2013, we had no facilities in Southeast Asia and Taiwan in which we have operational control.

Social Performance

Stakeholder Engagement and Community Initiatives

In Thailand, NED continued its monthly meetings with community representatives to better understand local concerns and explain its operations. Further, NED's "Youth and Education" focus saw it initiate events including seminars, exhibitions and training to enhance students' knowledge of renewable energy, strengthen ties with the local community and support NED's green image. Building upon the GreenEducation Museum in raising renewable energy awareness, NED also assisted in incorporating renewable energy lessons into local school programmes, installing solar panels on the library rooftops of two local schools and sponsoring scholarships to 100 children at five local schools.

In Taiwan, Ho-Ping continues to focus on health, environmental and cultural development. In 2013, it supported school sports events, scholarships as well as a broad range of community activities including beach cleaning and cultural dancing lessons. Through these efforts, Ho-Ping successfully engaged with key stakeholders including primary schools, indigenous residents and government representatives from Hualien and Yilan counties.

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 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 Vung Ang II and Vinh Tan III.

