27 February 2014

CLP Holdings Limited Announces 2013 Annual Results

Financial Highlights

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

In 2013, the Group's operating earnings remained steady at HK$9,307 million, compared with HK$9,406 million in 2012. Group total earnings, which include non-recurring items, were HK$6,060 million, 27.1% lower than that in the previous year. The decline in total earnings was due to the non-cash impairment and other charges of HK$3,696 million in relation to a number of our assets in Australia, India and the Chinese mainland.

Our business in Hong Kong continued to perform well and our Mainland business achieved a record profit. In India, while we continue to face challenges, the coal supply situation that had weighed heavily on our operation improved significantly in the second half of 2013. The disappointing results from Australia continue to reflect the unprecedented structural changes that the Australia energy market is undergoing.

Hong Kong

Earnings from our Hong Kong electricity business were HK$6,966 million, up 4.7% from HK$6,654 million in 2012, mainly due to the increase in permitted return from a higher level of average net fixed assets. During the year, we invested HK$7.5 billion in generation, transmission and distribution networks, as well as in customer services and supporting facilities.

In 2013 we announced, in collaboration with China Southern Power Grid Co., Limited (CSG), to jointly acquire the 60% stake in Castle Peak Power Company Limited (CAPCO) held by ExxonMobil Corporation. At completion, CLP will own a controlling 70% stake in CAPCO, up from 40% currently, while CSG will own the remaining 30%. Separately, CLP will also purchase ExxonMobil's 51% stake in Hong Kong Pumped Storage Development Company, Limited. The acquisitions give CLP majority control over our generating asset portfolio and reaffirm our commitment to continue to serve Hong Kong.

On the regulatory front, we completed the interim review of the Scheme of Control Agreement with Government in November. One of the initiatives introduced is the establishment of an Energy Efficiency Fund to carry out improvement works to enhance the energy efficiency of non-commercial buildings. CLP expects to contribute some HK$70 million to it.

In December 2013, we obtained approval for our 2014-2018 Development Plan, which projects capital expenditure totaling HK$34.1 billion over the period. The Development Plan also establishes that from now to 2018, the approved capital spending, together with operating costs, is expected to increase Basic Tariff by around 1.8% annually. This modest increase is the result of very prudent financial management and various initiatives to improve our work processes.

CLP achieved its best record on supply reliability during the year. In 2013, a typical CLP customer experienced well less than 2 minutes of unplanned interruptions in the year, compared to 16-35 minutes per year in New York, Sydney and London over the period of 2010-2012.

With our current natural gas supply from Yacheng depleting, the arrival of natural gas from PetroChina's Second West-East Gas Pipeline to Black Point Power Station (BPPS) marked a major step in the implementation of the Memorandum of Understanding signed between the HKSAR Government and the Central People's Government in 2008. We have received approval from the Ministry of Commerce to establish a joint-venture company with PetroChina for the Hong Kong Branch Line (HKBL), through which the new gas is delivered from Dachan Island in Shenzhen to BPPS. The business licence was issued in the fourth quarter of 2013. Construction and commissioning of the HKBL has been completed with all eight generation units at BPPS converted since August 2013. Consumption of the new gas has been stable.

At the same time, we are continuing discussions on alternative natural gas supplies and the new Shenzhen LNG Terminal Project for meeting future gas needs.

Daya Bay Nuclear Power Station 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.

The Government is expected to launch a public consultation on the fuel mix to be used for future electricity generation in the first quarter of 2014. CLP will provide information on the options available to help our community determine an appropriate policy.

Australia

In 2013, 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.

In 2013, the Australian energy market was marked by an oversupply of generating capacity, depressed wholesale prices, a pronounced decline in electricity demand and rising gas prices. Following a review of wholesale markets and projected lower wholesale electricity prices, EnergyAustralia has recorded non-cash impairment and other charges of HK$3,106 million after tax – approximately two-thirds of the impairment relates to Yallourn Power Station in Victoria while the balance relates to our gas-fired generation assets.

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

Generation output at Yallourn was adversely affected by labour disputes and the Morwell River Diversion repair in 2013. The disputes have been resolved in September. Repair and re-instatement of the Morwell River Diversion is now complete.

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.

While the difficult market conditions in Australia are likely to continue for some time, EnergyAustralia took a number of steps in 2013 to improve the fundamentals of its business with the aim of reducing costs, increasing efficiency and enhancing capabilities.

In retail, where we faced increased competitive pressure that led to a 4% drop in customer accounts as well as significant internal challenge, the focus has been on the stabilisation of our new billing and customer care system C1, planning for the integration of the 1.4 million customer accounts currently being serviced by Ausgrid under a Transition Services Agreement, as well as gaining efficiencies from reduction in bad and doubtful debt and labour costs.

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

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

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

Despite these challenges, there is considerable strength in our underlying portfolio, which is well diversified by geography, fuel type and operational mode. This allows us to effectively manage opportunities and risks across our portfolio in response to market conditions. EnergyAustralia will continue to assess market conditions and will actively review the optimum size, operating strategies and holding structure of its generation portfolio in response to these conditions.

Chinese Mainland

Operating earnings from the Chinese mainland reached a record high of HK$2,131 million in 2013, up from HK$1,411 million in 2012, as we continued to benefit from the reliable operating performance of Fangchenggang and the improved performance of our renewable portfolio. Earnings from our 25% stake in the Daya Bay Nuclear Power Station, 70% of the output from which serves our Hong Kong electricity business, remained steady in 2013.

Earnings from coal-fired projects increased by 89% as a result of lower coal prices, partially offset by a tariff reduction effective September 2013. Fangchenggang Power Station continues to be a significant earnings contributor. Its consistently good performance convinced us to embark on an expansion plan for the project, of which final approval is expected in the first half of 2014. Additionally, the performance of both CSEC Guohua and Shandong joint ventures also improved. However, we made a provision of HK$297 million to the carrying values of CSEC Guohua and Shenmu reflecting our estimates of their recoverable amounts.

On the renewable front, earnings 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 majority-owned solar project, Jinchang Solar Power Station in Gansu, contributed earnings of HK$20 million since commissioning in July 2013. We aim to increase our renewable energy portfolio. On top of our existing wind and hydro projects, we plan to develop more solar power projects in consideration of the growing maturity of solar photovoltaic technology, significant reduction in solar panel prices and attractive feed-in tariffs.

Our record performance in 2013 underlines the merit of our focused strategy of selective investments in nuclear power, coal-fired generation and renewable energy, accompanied by the divestment of minority stakes in joint ventures with limited growth prospect. In line with this strategy, we sold our biomass plant at Boxing given the project has limited potential for growth. The divestment resulted in a loss of HK$75 million.

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

India

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. Improved coal supply in the second half of the year reduced Jhajjar's operating loss. This was, however, offset by exchange loss on US dollar loans of Jhajjar and lower earnings from Paguthan as its despatch 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).

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

Generation at our gas-fired plant in Paguthan in Gujarat has fallen to 5% due to domestic natural gas shortages. Production from our principal domestic source 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. Its availability has been high at 96%. However, the plant's off-taker Gujarat Urja Vikas Nigam Limited (GUVNL) has requested a reduction in fixed charges under the PPA as it could only afford to purchase negligible amounts of power from Paguthan. We recently reached agreement with GUVNL to revise the terms of the PPA.

In 2013, our operating wind farm projects grew to 628.2MW, up from 521MW a year ago. Upon completion of our other projects, we will cement our position as India's largest private sector investor in the electricity sector and wind energy producer with a committed portfolio of over 1,000MW. Going forward, our focus will stay on finding attractive investment opportunities in renewables, particularly wind and solar.

Southeast Asia and Taiwan

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

Outlook

In summary, 2013 was a year of great significance for CLP, marked by the agreement to acquire a majority share of CAPCO, the successful and satisfactory resolution of a number of regulatory issues in Hong Kong and improvements to some of our investments in Asia Pacific. The changing socio-political environment in Hong Kong, the issues we continue to face in our regional investments and the ever-changing environment within our industry mean that as a team, we need to continue to focus and build on the strengths that have served the Group so well over such a long time.

For more details, please refer to the full version of "Announcement of Annual Results from 1 January 2013 to 31 December 2013, Dividend Declaration and Closure of Books".

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