CEO’s Strategic Review

“Looking at our overall 2015 results, our performance was very pleasing. We are glad that our strategy of “Focus ∙ Delivery ∙ Growth” was able to deliver results in its first year of implementation.”

Richard Lancaster
Chief Executive Officer
I am privileged to follow up the Chairman’s Statement in which he reported the Group’s strong performance in 2015. It is pleasing to note these results followed the successful first full year execution of our “Focus ∙ Delivery ∙ Growth” Group strategy and I will explain this in more details by market.

**Hong Kong**

2015 was a solid year for our business in Hong Kong. It continued to grow steadily as we consistently delivered a reliable, safe and reasonably priced electricity supply with improving environmental performance. This is the core promise of our business. Operating earnings increased 6.4% to HK$8,276 million, mainly due to the sharing of an additional 30% of CAPCO’s earnings for the first full year after completion of the acquisition in May 2014.

Our business has continued to perform well due to the steady growth in electricity demand arising from newly built infrastructure, population growth and our relentless pursuit of operating efficiencies and cost control.

CLP continues to invest in Hong Kong, as we have for more than a century now. Hong Kong is above all else – our home. But, as the Chairman has so clearly spelled out, we need regulatory clarity and a reasonable return to enable us to make long-term investment plans. This is where the new SoC Agreement comes into play. We are working closely with the Government, our key stakeholders, customers and the community for a regime that meets Hong Kong’s long-term energy objectives.

We also recognise our community’s aspiration for cleaner energy. In 2015, we almost doubled the amount of natural gas used to generate power to improve our environmental performance. We are reviewing with the Government the feasibility of building additional gas-fired generation capacity at Black Point Power Station to support the Government’s objective of using around 50% natural gas in the local generation fuel mix in 2020. To meet these goals, we have been working hard to source additional gas supplies, including signing a bridging contract to purchase gas from the small Wenchang gas field in the South China Sea using the existing Xicun solar project in Yunnan to a capacity of 84MW. The second phase of the development was achieved in only four months and is testament to the skills of our renewable energy development team in China.

The recent landslide incident in Shenzhen that led to the temporary suspension of natural gas from the Second West-East Gas Pipeline to Hong Kong has highlighted the vulnerability of Hong Kong’s energy security and signalled urgent actions to diversify our fuel sources. We are evaluating the feasibility of developing a Floating Storage and Regasification Unit in Hong Kong which will enable us to purchase liquefied natural gas from the international market.

**Mainland China**

Mainland China was identified as a key growth market in our investment strategy. Whilst growth in the Chinese economy slowed in 2015, our business in the Mainland performed well. Operating earnings were up 25.2% to HK$1,977 million as new renewable projects have contributed to earnings, lower coal prices have benefited our coal-fired projects and we resumed sharing of earnings from our joint venture CSEC Guohua.

During the year, we added 90MW of renewable energy in the Mainland. In November, we doubled the size of our successful Xicun solar project in Yunnan to a capacity of 84MW. The second phase of the development was achieved in only four months and is testament to the skills of our renewable energy development team in China.

Construction of Phase II of Fangchenggang Power Station in the Guangxi Zhuang Autonomous Region continued in 2015 and is slated for commissioning in 2016. In recent months, we have seen a slowdown of economic growth in China in general and Guangxi in particular. This will inevitably have an adverse impact on the utilisation of both our existing and new generating units in the near term. However, in the longer run, we remain confident of our project due to the strong fundamentals of Guangxi. Guangxi has the advantages of its...
unique location as a gateway to the ASEAN countries, and the Central People’s Government has a policy to relocate industries to this region from other parts of China.

CLP is in the energy business for the long term. We are used to dealing with business cycles and our investment decisions are based on trends and fundamentals over the long run rather than short-term economic movements. This strategy has served the company well in the past, and I believe it will continue to serve us well long into the future.

The gradual transitioning to a low carbon economy in China presents both opportunities and challenges for power generators like CLP. Whilst the dependency on fossil fuel will reduce, and hence the usage of coal-fired power plants, China’s commitment to increasing the share of non-fossil fuels in primary energy consumption to around 20% by 2030 will help support CLP’s continuing investments in low carbon energy in the Mainland.

India

Our business in India further improved in 2015. As I have noted in the past, the lack of affordable and reliable fuel supply has been a drag on the local industry for some years. However, thanks to our continuing efforts and alignment of the Government and fuel suppliers, the situation continues to improve. This has contributed to the 126.7% increase in CLP India’s operating earnings to HK$612 million.

Jhajjar Power Station achieved availability of more than 80% in 2015 due to improved operations and coal supply. We expect this good performance to continue into the rest of the Indian fiscal year ending 31 March 2016, enabling us to reach the contractual availability target. Although the quantity of coal has improved, quality remains an issue. We are working with the Government and our fuel suppliers on this issue and are confident that this effort will progressively bear fruit in the long run. Meanwhile, thanks to both lower gas prices and the Government’s subsidy scheme, utilisation of our gas-fired Paguthan plant also improved, which benefited both us and our customers.

During the year, we continued to expand our wind portfolio, which is a focus for us in India. We commissioned more than 190MW of wind projects in 2015 taking our operating wind portfolio to 924MW. In addition, we have another 149MW of wind power in the pipeline and we will remain the largest wind energy producer in the country.

In 2015, we also achieved a financial milestone after we issued our first green bond through CLP Wind Farms (India) to fund the development of wind projects in India. The move is in line with our plans for renewable projects in India and our policy of diversifying our financing sources.

Although the global economy is slowing down, the need for low carbon generation is significant in India and China. What are the opportunities available?

As outlined in our Investment Strategy, India and Mainland China are our two primary growth markets. At the same time, we are targeting for half of our investments outside of Hong Kong to be in renewable energy. We are India’s largest wind developer and we will continue to explore new opportunities in the field. We will also look for solar projects making use of our expertise developed elsewhere. Reforms of the electricity sector are creating new opportunities in Mainland China and we are encouraged by the policy support in the renewable sector. We welcome China’s transition to low carbon generation and our Fangchenggang Phase II project will go on line this year making use of the cleanest coal-fired technology available. We are also monitoring opportunities in the nuclear sector which will play a major role in China’s future energy mix.
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The Indian Government has also given priority to developing solar energy as part of its measures to combat climate change. In support of this, CLP will also explore opportunities in this area leveraging the expertise we have already established in China.

Southeast Asia and Taiwan

Our performance in Southeast Asia and Taiwan remained steady last year as our existing projects continued to operate satisfactorily. Operating earnings rose 5.1% to HK$312 million. At the same time, we saw good progress in the development of our two coal-fired projects in Vietnam.

CLP sees Southeast Asia as an important secondary growth market, and we are always on the lookout for opportunities in selected countries there.

Australia

2015 finally saw some stabilisation of the decline in energy demand that has characterised the industry in Australia over recent years. Despite continuing oversupply in the wholesale market, we have worked hard to restructure the business and increased our focus on our customers, cost control and efficiency. As a result, EnergyAustralia’s operating earnings increased by 10.6% to HK$836 million in 2015 despite a 16.9% decrease in the Australian dollar exchange rate.

Within EnergyAustralia, we have reshaped our strategy and put a priority on customers. We also strengthened the management team in order to achieve our goal of restoring value. We paid a lot of attention to our retail business, successfully integrating all mass market customer accounts onto one billing system, which I am pleased to report operated steadily and efficiently throughout 2015.

With a strong management team, an integrated billing system, and a sharpened focus, we are now able to forge further synergies, investing in areas that will further cut costs in the future. Our plan to further invest in our digital mobile platform to improve customer experience and to reduce our back office costs is just one example of the exciting possibilities.

In another move to restore value to the business, EnergyAustralia reached an agreement to sell the Iona Gas Plant in the State of Victoria for A$1,780 million (HK$9,991 million). The sale has allowed us to strengthen our balance sheet, reduce our debt and provide funds for investment for the future.

However, uncertainty still remains in the wholesale market. Following the closure of our Wallerawang Power Station in New South Wales in 2014, some industry participants have also announced closures of generating facilities, but progress has been slow and a significant oversupply remains. Whilst the recent decline in the value of the Australian dollar has helped the competitiveness of local manufacturers, there remains...
concern that further large scale industrial closures or a further economic slowdown in Australia will again impact demand for electricity.

We therefore believe that the oversupply situation may continue for some time and will require coordinated effort amongst industry players, relevant authorities and local communities to address the problem. As we expect this process to be very slow, we have performed another detailed analysis of the economic prospects of our generation assets and decided to impair and make provisions for some of those assets totalling A$261 million (HK$1,480 million).

In the longer run, EnergyAustralia aims to transform the business into a world-class energy retailer operating on a sustainable and low-cost business model. With this, I am confident that we are on track to restore and enhance the value to the business.

Climate Change
The issue of climate change loomed larger in 2015, principally due to COP21 in Paris. In December 2015, I took the opportunity to attend and speak at some of the side events at COP21, explaining the Group’s environmental policies and voicing our support for a well-managed transition to a low carbon future. I was there with thousands of senior executives from around the world who had gathered in Paris to absorb knowledge from some of the world’s leading energy experts. It also allowed me and my team to observe as we watched the climate talks unfold and culminate in the Paris Agreement. We welcome the Agreement, particularly the clarity it brings to various countries’ low carbon development plans. We look forward to working with policy makers in the countries in which we operate to translate the Agreement into policies and actions.

As the Chairman has pointed out, the transition to a low carbon economy will not, and should not, happen overnight. Companies, including CLP, need to work hand in hand with policy makers to ensure an orderly and controlled transition to a low carbon economy. As a responsible investor in the Asia-Pacific power sector for so many years, we are ready and willing to continue to front up to this challenge. In 2015, we invested HK$3,042 million and commissioned 284MW of new renewable energy projects. With incidents of extreme weather increasing globally as a result of climate change, we have also made it a priority to improve the resilience of our power supply system. Hong Kong has one of the world’s most reliable electricity supply systems and we hope that these measures can reduce the impact of super-typhoons and severe floods on our power systems and keep disturbance to the public to a minimum. We will continue to play our part in addressing climate change, as we have always done.

Summary
Looking at our overall 2015 results, our performance was very pleasing. We are glad that our strategy of “Focus ∙ Delivery ∙ Growth” was able to deliver results in its first year of implementation. We need to build on that, and we are confident that it will guide us in the years ahead. Be assured that CLP will continue to be a responsible investor in the Asia-Pacific region in the years to come.

Richard Lancaster
Hong Kong, 29 February 2016