25 February 2013

CLP Holdings Limited Announces 2012 Annual Results

Highlights

- Good performance from Hong Kong, China and Southeast Asia and Taiwan, impacted by earnings decline in Australia and India, resulting in a 8.8% drop in group operating earnings to HK$9,406 million (2011: HK$10,312 million)
- Total earnings affected by one-off events, especially Yallourn mine flood and Jhajjar coal shortages, with total earnings after one-off items decreasing by 10.5% to HK$8,312 million (2011: HK$9,288 million)
- Our electricity business in Hong Kong remained stable, with operating earnings increasing by 5.0% to HK$6,654 million (2011: HK$6,339 million)
- Improved second half performance, remediation at Yallourn and initial coal imports at Jhajjar
- Investment opportunities focus on gas infrastructure, Fangchenggang and renewable energy
- Share placing of HK$7.56 billion of net proceeds in December 2012 strengthened balance sheet to support future growth
- Fourth interim dividend of HK$0.98 per share; including the first three interim dividends paid, total dividends for 2012 increased to HK$2.57 per share (2011: HK$2.52 per share)

In 2012, the Group’s operating earnings were HK$9,406 million, a decline of 8.8% compared with HK$10,312 million in 2011. Group total earnings, which include non-recurring items, were HK$8,312 million, 10.5% lower than that in the previous year.

Notwithstanding good performance from Hong Kong, China, and Southeast Asia and Taiwan, operating earnings from CLP’s non-Hong Kong businesses were HK$2,565 million in 2012, a decrease of 30.9% compared to the corresponding period in 2011. The decline was further exacerbated by the impact on total earnings of one-off items of the Yallourn mine flooding, HK$790 million, and the impairment of our investments at Jhajjar and Boxing Biomass of HK$409 million.

Electricity Business in Hong Kong

Our Hong Kong electricity business remains at the core of the Group’s operations and provides the majority of our earnings. In 2012, operating earnings from the business were HK$6,654 million, a 5% increase from HK$6,339 million in 2011. Local sales of electricity increased by 2.7% from the same period a year ago while sales to the Chinese mainland decreased by 37.8%.

In 2012 we invested HK$8.6 billion in generation, transmission and distribution networks, as well as in customer services and supporting facilities.

In view of the depleting Yacheng gas reserves, a Memorandum of Understanding (MOU) was signed between the HKSAR Government and the Central People’s Government in 2008 to
provide for the long term gas supply to Hong Kong from three new sources in the mainland. Of these, the Second West-East Gas Pipeline (WEPII) is the earliest available source. The approval of a Gas Supply Agreement (GSA) with PetroChina in December 2012 was a major step forward in the implementation of the MOU. Natural gas to be supplied through this pipeline arrived in Hong Kong before the end of 2012.

The Hong Kong Branch Line project (HKBL), which refers to a newly constructed Launching Station at Dachan Island in Shenzhen, a subsea gas pipeline and the end-station at Black Point to deliver the new gas resource, is an important step in the integration of Hong Kong with Guangdong’s energy infrastructure and brings access to a vast gas supply resource from Central Asia. Jointly owned by PetroChina (60%) and CLP (40%), the total investment cost of the HKBL is around RMB4 billion. CLP’s investment in HKBL will not be included as an asset under the Scheme of Control. The investment return level is in line with the PRC’s regulatory guidelines, and constitutes a reasonable and stable return which will be recovered through a transportation charge payable by CAPCO under the GSA starting from 2013.

Subject to the further development of the Hong Kong Government’s energy, environmental and climate change policies, we expect the use of natural gas to increase. We are exploring new supply options, as contemplated under the MOU. These include PetroChina’s proposed Shenzhen LNG terminal, targeted for approval by the National Energy Administration in 2013, as well as gas from new fields in the South China Sea. Discussions on various long term supply arrangements are on-going.

CLP was able to keep its average 2013 Basic Tariff unchanged due to continued stringent cost management over capital and operating expenditures and the effect of higher than expected electricity sales due to warmer weather in 2012. However, because of the increase in fuel costs and an adjustment to the rent and rates special rebate, the average Net Tariff increase in 2013 was 5.9%. Of this, 4.7% was due to the increase in the fuel clause charge as new natural gas supplies arrive through WEPII. Whilst this gas is priced at the prevailing international market level, it will be around three times the price of the gas from the existing Yacheng field, which was contracted 20 years ago when energy prices were significantly lower.

Even with the tariff adjustment in 2013, CLP’s tariff is still highly competitive when compared with other major metropolitan cities.

**Energy Business in Australia**

The operating earnings from our wholly-owned subsidiary in Australia, which was rebranded from TRUenergy to EnergyAustralia in October 2012, were HK$1,685 million in 2012, compared to HK$2,911 million in the previous year. This 42.1% decrease in earnings was caused by a combination of factors including reduced customer demand, suppressed wholesale electricity prices, higher operating costs and higher fair value loss on energy contracts. Operating costs increased by HK$1,450 million or 35.7% year-on-year due to higher employee and contractor costs, increased marketing expenditure, bad and doubtful debts, and increased costs associated with the TSA and Delta Western GenTrader contracts.

2012 saw an exceptionally challenging business environment for EnergyAustralia, with a number of external market factors influencing the business. These included the introduction of a carbon tax, reduced wholesale energy prices, consumer concern about rising energy prices, declining energy demand and a significant downward revision of future demand projections, all combined with continuing high retail competition in our key markets and regulatory uncertainty
around price setting by New South Wales and Queensland. These factors impacted the industry as a whole, providing difficult trading conditions for ourselves and our major competitors alike.

Against this background, we focused on the fundamentals of the business while positioning ourselves to meet the future needs of our customers. We rebranded the business, implemented a new retail billing system, introduced new retail products and optimised the profitability of generation across our portfolio.

Retail electricity prices in all states were increased on 1 July 2012 as a result of the introduction of a cost of carbon by the Australian Government. Prices in some states were also increased in line with the annual price review process. When combined with the highly competitive retail energy market, such increases reinforce the need for EnergyAustralia to enhance customer service, whilst controlling cost, in order to retain existing customers and to attract new ones. EnergyAustralia defended its market position well in 2012. Our churn out rate, which measures customers switching from one energy retailer to another, was below the industry average in Victoria and only marginally above market in NSW despite the aggressive push for market share in the electricity market by non-incumbent retailers.

In wholesale market, EnergyAustralia’s operated gas-fired power stations, at Tallawarra and Hallett, performed safely and reliably during the year. The energy produced by the Tallawarra Power Station was more cost competitive after the introduction of the carbon price and a decrease in the cost of gas which resulted in the power station performing well over the second half of the year. We also responded with commitment, resourcefulness and ingenuity when faced with the breach of the Morwell River Diversion which temporarily disrupted operations at our Yallourn Power Station.

**Electricity Business in the Chinese Mainland**

Earnings from the Chinese mainland totalled HK$1,411 million in 2012, an increase from HK$1,155 million in 2011. This includes earnings from our 25% stake in the Daya Bay Nuclear Power Station (Daya Bay), 70% of whose output serves our Hong Kong electricity business. Those earnings from Daya Bay decreased slightly, mainly because of lower average shareholders’ funds, offset by a dividend income of HK$55 million from DNMC (the management company of Daya Bay—in which CLP has a 12.5% interest).

Earnings from CLP’s coal-fired projects increased by 56.5% as a result of higher tariff and lower coal prices. Fangchenggang continues to make a significant contribution to earnings. Significant improvements to earnings were also seen from our investments in the Guohua International and Shandong joint ventures. Fangchenggang Stage I has proved to be a successful investment, providing grounds for confidence in the Stage II expansion project to add two 660MW units on the same site. The National Energy Administration has given in-principle approval for the plan. Preparatory work is well underway and full-scale construction will start as soon as final approval has been issued by the National Development and Reform Commission. We hope this will be received in the first half of 2013.

CLP continues to work with CGNPC, our longstanding partner in Daya Bay, to pursue regulatory approval for the acquisition of a 17% equity share in the Yangjiang Nuclear Power Station project (6 x 1,080MW) in Guangdong. The project is to be commissioned in phases, with the commissioning of Unit 1 expected in 2013 for supplying power to Guangdong.
Earnings from renewable projects were also higher due to the commissioning of new wind projects, partially offset by lower earnings contribution from hydro projects due to less rainfall and lower demand.

CLP’s second wholly-owned wind project, Penglai Phase I (48MW) in Shandong was commissioned in February 2012. Final approval was received for the wholly-owned Laiwu Phase I (49.5MW) project. Construction is expected to commence in early 2013 and commissioning targeted for early 2014.

With the growing maturity of solar photovoltaic technology, the significant reduction in solar panel prices and China’s feed-in tariff for solar power stabilising at a relatively attractive level, CLP has now acquired a 51% equity interest in the Jinchang Solar Project (100MW) in Gansu Province following a framework agreement in November 2012. This is our first solar project in China and the country’s largest tracking system solar farm to date. Construction is underway and targeted to complete in the second quarter of 2013.

Electricity Business in India

The financial performance in 2012 of CLP’s investments in India was disappointing with an operating loss of HK$182 million, compared to earnings of HK$154 million in 2011. Jhajjar Power Station (Jhajjar) reported an operating loss due to low availability. This was a result of coal shortages and technical problems caused by the poor quality of coal which has been supplied by Coal India Limited since the commissioning of Units 1 and 2 in March and July 2012, respectively. We have taken an impairment of Rs.2,470 million (HK$350 million) to the book value of our investment in Jhajjar. The post-tax impairment loss is Rs.2,227 million, or HK$315 million.

A series of measures are underway to address coal supply issues. These include the use of imported coal (initially of an amount representing 15% of plant requirements, with in-principle support obtained on 16 January 2013 and since confirmed in a meeting with the Chief Minister of Haryana, to increase this in the Indian fiscal year 1 April 2013 to 31 March 2014) and improvements to the coal handling equipment.

The technical performance of Jhajjar has improved tremendously, despite a commissioning period which was badly disrupted by coal shortage. Through intensive effort, CLP expects an improvement in the financial and operating performance of Jhajjar over the next 6 to 18 months, largely attributable to slow but steady increases to the level of coal supplied to Jhajjar from both domestic and international sources. It may however take two to three years before Jhajjar reaches a point where its operations might be regarded as stable and predictable and on track to deliver returns close to the investment case.

Although we have made an impairment provision for Jhajjar in this year’s financial statements, fundamentals of the project are good – we built the plant well and will operate it efficiently. Haryana is in clear need for electricity and Jhajjar is a highly-competitive electricity generator. In the end, these fundamentals will play out to a positive outcome, but it will take time, effort, resources and patience to arrive there.

Operating earnings from Paguthan were slightly lower than in 2011. This was mainly due to heat rate loss and higher provision for doubtful debts.
During 2012, our Indian wind energy portfolio demonstrated significantly improved performance, delivering earnings of HK$47 million. This was largely due to the commissioning of new projects at Andhra Lake and Sipla, the higher wind resources experienced during the year and improved operation and maintenance management capability. We have a further 451MW of wind energy under development, all of which we expect to commission by March 2014.

**Electricity Business in Southeast Asia and Taiwan**

The operating earnings from the Group’s investments in Southeast Asia and Taiwan in 2012 were HK$243 million, a substantial increase from HK$86 million in 2011. This increase was mainly due to an adjustment to the Ho-Ping tariff, which reflects the higher coal price paid by Taipower in the previous year, and higher generation due to a major overhaul in 2011. Coal market prices have subsequently fallen, which further improves Ho-Ping’s earnings. In addition, the Lopburi solar project in Thailand, in which CLP holds a one-third stake, contributed earnings of HK$38 million.

**Outlook**

Going forward, we expect our Hong Kong business will continue to deliver steady performance, strengthened by a focus on operating efficiency, cost control and mitigation of tariff increase as well as ongoing investment in transmission and distribution and gas related infrastructure. In Australia, we seek to enhance performance of existing business platform, including managing implications of lower wholesale prices and reduced electricity demand, bettering customer service and products, and improving our cost base. We will pursue our niche strategy in China, which centres on expansion at Fangchenggang, development of renewables projects particularly wind and solar, as well as nuclear investment. In India, our priority will be the stabilisation of fuel supply for our Jhajjar plant, accompanied by growth in renewables, principally on our wind energy portfolio.

Whilst the past year was not easy, the business is in good shape, possesses a healthy balance sheet and is highly capable of delivering growth in earnings through the years ahead in line with a strategy which is clear and widely disclosed. Although operating earnings were down in 2012, our confidence in the Group’s business and its prospects for continued growth has been expressed in the decision to increase the dividends for the year by a fourth interim dividend of HK$0.98 per share.

For more details, please refer to the full version of “Announcement of Annual Results from 1 January 2012 to 31 December 2012, Dividend Declaration and Closure of Books”.

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