

12 August 2013

## CLP Holdings Limited Announces 2013 Interim Results

### Financial Highlights

- Group operating earnings for the first half of 2013 amounted to HK\$3,896 million, comparable with the corresponding period in 2012.
- Total earnings including non-recurring items increased 12.2% to HK\$3,767 million; earnings per share increased 7.2% to HK\$1.49 per share.
- Operating earnings from our electricity business in Hong Kong increased 5.5% to HK\$3,417 million.
- Operating loss from our Australia business was HK\$45 million (as compared to earnings of HK\$268 million in 2012) due to challenging operating environment.
- Consolidated revenue rose 12.0% to HK\$51,706 million.
- Second interim dividend of HK\$0.53 per share.

In the first half of 2013, the Group's operating earnings were HK\$3,896 million, comparable with HK\$3,897 million from the same period in 2012. The Group's total earnings, including one-off items, were HK\$3,767 million, an increase of 12.2% from the corresponding period in the previous year.

### **Hong Kong**

Our Hong Kong electricity business remains the core of the Group's activities. Business performance was stable during the first half of 2013. Operating earnings increased 5.5% to HK\$3,417 million on higher average net fixed assets, compared to HK\$3,240 million in the same period in 2012.

In the first six months of this year, local sales of electricity decreased 1.5% over the same period last year. Sales to the Chinese mainland dropped 38.1% from last year primarily due to lower committed sales to the Guangdong Power Grid Corporation. Total electricity sales were down 3.8%.

During the period, our Hong Kong business invested HK\$3 billion in generation, transmission and distribution networks, as well as in customer services and support facilities.

As part of the current Scheme of Control (SoC) Agreement, we have submitted a new Development Plan to the Government covering investment needed for our Hong Kong business over the period 2014 to 2018. This is currently under review by Government. Our proposal is

practical, reasonable, and aims to strike a balance among safety, reliability, environmental performance and cost. We will work collaboratively and proactively with the Government to ensure that due regard is paid to system security and operational needs to support Hong Kong's long-term development whilst maintaining cost effective tariffs and managing increasing fuel costs in the best way possible.

The SoC Agreement also provides for an Interim Review in 2013. Under this review, changes to the SoC can be made by mutual agreement between CLP and the Government. The Interim Review is now underway. We have been and will continue to work closely with the Government to conduct the review in accordance with the mechanism stipulated in the SoC Agreement and give careful consideration to the interests of our shareholders, customers, stakeholders, and the community at large.

Meanwhile, the Government is expected to launch a consultation on the territory's future fuel mix for power generation in the second half of 2013. Energy policy should be made jointly by the community and the Government with a clear understanding of the implications and consequences of various energy choices as there are inherent trade-offs associated with each type of power generation. CLP's role is to implement any roadmap resulting from the joint decision. We are also committed to facilitate the making of an informed decision on Hong Kong's energy policy by providing relevant information to our stakeholders.

The arrival of natural gas from PetroChina's Second West-East Gas Pipeline (WEPII) at the end of last year marked a major step in the implementation of the Memorandum of Understanding (MOU) signed between the HKSAR Government and the Central People's Government in 2008. According to the MOU, a Gas Supply Agreement (GSA) with PetroChina has been signed for the supply of WEPII gas to Hong Kong from 2013 for the next 20 years. The GSA has also been approved by the HKSAR Government. Construction and commissioning of the Hong Kong Branch Line, through which the WEPII gas is delivered, is completed. CLP has now started using the WEPII gas.

## **Australia**

Results from Australia continue to reflect the extremely challenging business environment in the country's energy markets. They were highly disappointing and we have reported a loss of HK\$45 million during the first half of 2013, compared with earnings of HK\$268 million for the same period the previous year.

Excluding changes in the fair value of energy hedging instruments and inclusive of normalisation adjustments commonly used in Australia, the normalised net profit after tax and before fair value adjustments was HK\$55 million, compared with HK\$807 million in the first half of 2012.

The Australia energy market is facing unprecedented structural changes that are taking place at a rapid pace. In particular, the past two years have seen a pronounced decline in residential electricity demand in response to rising prices, and the deployment of rooftop solar photovoltaic systems and energy efficiency savings have more than offset any increase in demand from population growth. Commercial and industrial demand has also been impacted materially by a difficult manufacturing environment, in part due to rising energy costs, a highly valued Australian dollar and a slowing global economy.

This soft demand environment, combined with an increase in renewable energy generation due to the Australian Government's Renewable Energy Target (RET) scheme, has suppressed wholesale prices, and this is likely to continue. These factors are impacting the industry as a whole, providing difficult trading conditions for ourselves and our major competitors alike.

On top of a difficult operating environment, the financial performance of the business continues to be adversely influenced by a series of internal challenges. EnergyAustralia has encountered a number of issues during the implementation of its new billing system such as delays in registrations, billings, and customer collections, resulting in additional costs. However, we envisage that these defects will be resolved methodically, and that the new billing system will ultimately deliver the anticipated operational and efficiency benefits.

Industrial action related to a new Enterprise Bargaining Agreement (EBA) during the first half of 2013 resulted in reduced output and plant availability at Yallourn Power Station and further contributed to the weak financial performance of the business. Negotiations around the EBA are ongoing and industrial action continues. Management is working to mitigate the financial impact on the company, which includes the decision to delay a major outage at Yallourn without compromising its operational reliability. We intend to maintain a flexible workplace agreement that enables Yallourn to remain competitive in a difficult market environment.

In order to address the sector-wide external pressures and internal challenges, EnergyAustralia has instigated a number of programmes that focus on improved business productivity and cost reduction, including:

- retail and corporate efficiency programmes aimed at improving operational efficiencies and enhancing customer experience;
- an assessment of how to optimise the operation of Yallourn Power Station in light of the introduction of the carbon pricing regime in July 2012, lower energy demand and increased energy supply and capacity in the wholesale market; and
- cost control measures including changes in procurement policy and structural changes across the organisation, resulting in approximately 100 permanent positions being made redundant and 50 contractor positions being terminated over the 2013 calendar year.

In spite of these challenges, generation performance across the portfolio was satisfactory with total outputs from the Tallawarra, Hallett and Cathedral Rocks stations being higher for the first six months of 2013 compared to the first half of 2012. The Iona Gas Plant continued to perform well.

In a move to provide further flexibility to its energy generation portfolio and reduce costs, EnergyAustralia announced on 25 July the acquisitions of the Mount Piper and Wallerawang power stations, which underpin the Delta Western GenTrader Agreements. The acquisitions will release EnergyAustralia from the fixed contractual commitments under the GenTrader Agreements, providing the opportunity for immediate savings in capital and operating expenditures.

On 31 May, EnergyAustralia sold a 75% interest in the Waterloo Wind Farm and realised total proceeds of A\$228 million (HK\$1,704 million) from the transaction. EnergyAustralia will continue to operate and manage the wind farm and to be a long term off-taker for both energy and large-scale generation certificates to meet its RET obligations.

## **Chinese Mainland**

Operating earnings from the Chinese mainland, including our 25% stake in the Daya Bay Nuclear Power Station, totalled HK\$835 million during the first half of 2013, a 26.3% increase against HK\$661 million in the first six months of 2012.

In spite of a slower growth in national demand for electricity in China in the first half of 2013, earnings from our coal-fired generating plants increased as a result of reasonable levels of despatch and stable coal prices. In addition, earnings from hydro projects improved due to higher generation as a result of higher rainfall. Our wind portfolio contributed earnings of HK\$74 million, compared to HK\$97 million last year due to lower wind speeds, grid restrictions and the pending renewal of the policy of Shandong provisional subsidy.

Given the reliable operating performance of Phase I of the Fangchenggang Power Station and growth in demand for electricity in Guangxi Region, we will focus on obtaining final approvals to proceed with the construction of Fangchenggang Phase II. Preparatory work is underway and full construction will start as soon as final approval is granted.

In the first half, Boxing Biomass in Shandong reported a loss of HK\$87 million, which includes impairment and a provision for divestment costs. The problems with feedstock procurement remain a major obstacle to achieving reasonable operating economics. Since there is no foreseeable change to the operating environment, we are exploring divestment options in view of the difficulty in maintaining long-term sustainability of this type of generation.

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 will be commissioned in phases, with Unit 1 expected to be in operation in 2013 to supply power to Guangdong.

## **India**

Loss from our India business increased to HK\$212 million in the first half of 2013 from a loss of HK\$19 million in the same period a year ago. The loss was mainly attributable to Jhajjar Power Limited (JPL) as a result of the on-going coal supply shortage. In addition, a net translation loss on US dollar loans and foreign currency retention payables relating to JPL further reduced the contribution from CLP India.

Availability of fuel, for both coal and gas, has been the utmost concern for our thermal power plants and the power sector as a whole. These issues are not unique to our business, as they are affecting the Indian power sector at large. While the underlying profitability of our gas-fired plant at Paguthan is protected under the existing Power Purchase Agreement, we have seen severe impacts on our coal-fired power station at Jhajjar, where the inadequate, irregular and poor quality of coal deliveries from Coal India have impeded the plant's operational and financial performances.

We have continued to work with relevant government authorities and officials across all levels to secure additional supplies of coal. Our efforts have led to some improvements. Specifically, approval has been received for the import of 1.7 million tonnes of coal up to May 2014, which

represent about a third of our requirements. We can recover the costs of imported coal through our tariff. Moreover, the plant equipment has been modified to accommodate varying quality and type of coal. Additionally, the Indian Government has recently granted approval to allow power companies that rely principally on domestic coal to buy imports to make up for local shortfalls and to pass on the costs of imported coal to customers. We expect further improvements in the commercial performance of JPL over the next 6 to 18 months, although it may take two to three years before the power station reaches a point of stability and starts to deliver earnings closer to the original investment case.

Our new investment focus for now, and until the fuel shortage situation is resolved, is on growing our wind portfolio. Our wind energy portfolio in India performed within our expectations. We commissioned the Bhakrani (54.4MW) and Sipla (50.4MW) wind projects in the state of Rajasthan. Upon completion of the Jath wind project (130MW) in Maharashtra, our wind portfolio will grow beyond 1,000MW, cementing our position as the country's largest wind energy producer, whether domestic or foreign.

### **Southeast Asia and Taiwan**

Lower earnings from Southeast Asia and Taiwan were mainly due to Ho-Ping's provision for a penalty imposed by Taiwan Fair Trade Commission (HK\$62 million) and lower generation, partly offset by higher earnings from Lopburi solar project in Thailand since its full commercial operation in March 2012.

### **Summary**

While we continue to face exceptional difficulties in Australia and India, our strong performances in Hong Kong and the Chinese mainland underscore the benefits of maintaining a diversified portfolio such as ours. We are mindful of the volatility and difficulties we are facing in various markets, and are working hard to tackle them. Although quick-fix solutions are unlikely to come soon, we are steering in the right direction for the long term. Notwithstanding the demanding operating conditions, we have maintained the level of the first and second interim dividends for 2013 at HK\$0.53 per share.

*For more details, please refer to the full version of [“Announcement of Interim Results as from 1 January 2013 to 30 June 2013, Dividend Declaration and Closure of Books”](#).*

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#### **Media Contact**

Ms Winifred Wong  
Deputy Director – PA (Group)  
CLP Power Hong Kong Limited  
Tel: (852) 2678 8014  
Pager: (852) 7116 3131 A/C 7736  
Email: winifred@clp.com.hk

#### **Analysts Contact**

Ms Gloria Kwan  
Director – Investor Relations  
CLP Holdings Limited  
Tel: (852) 2678 8322  
Email: ir@clp.com.hk