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中電控股有限公司
CLP Holdings Limited

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CLP Holdings Limited Announces 2014 Annual Results

Financial Highlights

- Group operating earnings raised 8.1% to HK$10,062 million, whilst total earnings after one-off items increased by 85.2% to HK$11,221 million.
- Operating earnings from Hong Kong, India and Australia increased but partially offset by a decline from Mainland China.
- Consolidated revenue dropped to HK$92,259 million; Hong Kong electricity revenue grew 4.3% to HK$35,303 million; revenue from Australia decreased by 21.7% to HK$50,895 million.
- Fourth interim dividend of HK$1.00 per share; including the first three interim dividends paid, total dividends for 2014 were HK$2.62 per share (2013: HK$2.57 per share).

In 2014, the Group's operating earnings were HK$10,062 million, an 8.1% increase over the same period last year. One-off items for the year amounted to a net gain of HK$1,159 million, predominantly associated with the acquisition of additional interests in Castle Peak Power Company Limited (CAPCO) and Hong Kong Pumped Storage Development Company, Limited (PSDC). Total earnings were up 85.2% to HK$11,221 million. These earnings have enabled the Board to approve a fourth interim dividend of HK$1.00 per share for 2014. Together with the three interim dividends already paid, our total dividend this year is HK$2.62 per share, an increase from HK$2.57 in the previous year.

"In 2014, our focus on the business delivered improvement in earnings and established sound platforms for growth. Our Hong Kong business continued to perform well, whilst the aggregate performance from overseas improved," said Richard Lancaster, Chief Executive Officer of CLP Holdings at the Group's 2014 annual results announcement media briefing. "The nature of the power sector requires a long-term view and CLP has come a long way since our founding in 1901. We have grown from a company operating solely in Hong Kong to a leading energy provider in the Asia Pacific. I am confident that CLP will move forward in the coming decade with a clear strategic vision, enabling us to build on the success we have delivered to our stakeholders in the preceding eleven decades."

Hong Kong

In 2014, earnings from our Hong Kong electricity business were HK$7,777 million, an 11.6% increase from HK$6,966 million in 2013. This was mainly attributable to the share of additional 30% of CAPCO's earnings following the completion of the acquisition of CAPCO in May 2014, and the increase in permitted return from a higher level of average net fixed assets.

During the year, we recognised a one-off net gain of HK$1,953 million, which represented the deemed disposal gain on previously held interests in CAPCO (40%) and PSDC (49%), net of the loss on settlement of a pre-existing finance lease arrangement with CAPCO.

Although the electricity sector in Hong Kong is mature, demand in our service area is still growing due to population expansion, infrastructure development and new businesses like data centres. During the year, local sales of electricity reached a record high, increasing 3.6% year-on-year, due to a higher heating and dehumidifying load in the first quarter and an increase in the cooling load in the summer. This was illustrated by a new maximum demand record of 7,030MW on 23 July 2014. The new record is 3.9% above the previous peak of 6,769MW recorded in 2012. At the new peak, our generation reserve margin was reduced to just 26.4%, against the range of 20% to 35% recommended by the International Energy Agency.

During 2014, we invested HK$7.8 billion in generation, transmission and distribution networks, as well as customer services and supporting facilities, to enhance the reliability and security of our supply system. These investments safeguarded the timely provision of electricity supply for our customers and new infrastructure projects.

Under Hong Kong's increasingly stringent environment policy, the annual emission caps for our power plants have been reduced significantly by a range of 35% to 65% this year. In fact, our gas consumption volume in 2015 will need to almost double that of 2014 in order to comply with these new regulatory requirements. This is expected to lead to an approximate 50% increase in fuel costs since natural gas, while substantially cleaner, is much more expensive than coal. This is especially true for the gas supplied from the Second West-East Gas Pipeline (WEPII) upon which we are becoming more dependent as supplies from the Yacheng gas field deplete.

During 2014, we undertook active measures to reduce our costs and to optimise the use of coal, whilst still meeting our emissions targets. As a result, we were able to maintain the Average Basic Tariff at a level lower than that of 1998 and keep the Average Total Tariff adjustment at 3.1% in 2015.

We have seen some sharp reductions in oil prices in recent months. If these lower prices are sustained then it will be of some assistance in limiting the impact of WEPII gas on tariffs as a portion of the natural gas price is linked with the oil price. However, the total contract gas price is materially affected by a basket of factors, in particular pipeline charges and other fixed costs, which are not affected by oil price movements.

As natural gas will clearly play a more important role in power generation in Hong Kong, we continue to prepare for all feasible options to enable us to source new gas supplies including access to liquefied natural gas import infrastructure which will be vital for us in obtaining competitively-priced gas. We are also exploring alternative offshore gas supply from the South China Sea. In addition, we will continue our feasibility study of new gas-fired generation facilities in Hong Kong.

In the first half of 2015, the Government will launch a new round of public consultation on the regulatory structure of Hong Kong's electricity sector. As with the 2014 fuel mix consultation, we will offer our expertise and experience to contribute to an informed discussion. We will actively and constructively engage with the Government and other stakeholders in that discussion process. Our aim is to find solutions for Hong Kong's energy policy that achieve the right balance covering safety, reliability, cost and environmental performance to enable us to better serve the community. As a member of the Hong Kong community, we always bear in mind the long-term interests of Hong Kong's people and look to create long-term value for our city, our customers and our shareholders.

Mainland China

Operating earnings from Mainland China totalled HK$1,579 million in 2014, a drop from HK$2,131 million in 2013 due to lower earnings from coal-fired and renewable projects. Earnings from coal-fired projects decreased partly because earnings from the CSEC Guohua and Shenmu power projects were not shared under the Share Transfer Agreement signed in April 2014 (notwithstanding the Agreement subsequently lapsed on 31 December 2014).

Throughout the year, our coal-fired projects continued to perform reliably. Although the on-grid tariffs for our coal-fired projects were reduced from 1 September 2014, this reduction was more than compensated by the fall in coal prices. During the year, earnings contribution from Fangchenggang Power Station decreased due to fewer units sold and expiry of an income tax credit, partly offset by lower coal prices. Construction of Fangchenggang II commenced in 2014 and continues to progress on schedule for planned commissioning in 2016.

Earnings from renewable projects also dropped due to lower water flows and poor wind resources. In addition, Jiangbian Hydro and Huaiji Hydro were affected by damages caused by heavy rains during the year. In view of lower utilisation hours as a result of poor water flows and the lack of revenues from Clean Development Mechanism, an impairment provision of HK$158 million for Dali Yang_er Hydro was made.

In 2014, our wind projects on the Mainland were affected by low wind speeds, which were below the average of the previous two to three decades. However, grid curtailment in Jilin has slightly improved during the year. On the development front, we have obtained approvals from the relevant provincial governments for four additional wholly-owned wind projects (Xundian I in Yunnan, CLP Laizhou I and Laiwu II in Shandong, and Sandu I in Guizhou) with a total generation capacity of around 250MW. Sandu I started preparatory construction work in December.

Performance of Jinchang Solar (85MW, 51% owned by CLP) in Gansu was also negatively affected by grid curtailment because of the commissioning of other thermal and solar power plants in the region and flat local demand. We expect resolution of the situation in 2016 when the inter-provincial transmission network, currently under construction, comes online. Our 42MW, wholly-owned Xicun Solar Power Station in Yunnan achieved commercial operation in December 2014. Sihong Solar Power Station in Jiangsu (93MW, 51% owned by CLP) commenced commercial operation on 1 February 2015.

Earnings from our 25% stake in the Daya Bay Nuclear Power Station (GNPS) rose by 30.1% as a result of performance in safety, operation and cost management. GNPS continued to operate smoothly in 2014. In May 2014, GNPS celebrated its 20th anniversary of commercial operation. Our partnership with China General Nuclear Power Corporation has been extended to 2034.

China is expected to reform the power sector in the 13th Five-Year Plan Period (2016-2020) to improve efficiency of the industry. Despite recent slowdowns, Mainland China remains an exciting, high growth country where CLP is well positioned for the future. The Mainland will remain a core growth driver for CLP that we will closely monitor the development and explore growth opportunities in areas where we currently enjoy competitive advantages.

India

Operating earnings from CLP India increased from HK$184 million in 2013 to HK$270 million in 2014, mainly contributed by Jhajjar Power Station as a result of improved coal supplies, lower net loss on translation of US dollar borrowings and fair value of related derivatives. Earnings from Paguthan Power Station and wind projects remained at similar levels as in 2013.

In 2014, Jhajjar showed a remarkable improvement of its overall operating performance. For the first time, availability reached 80%, over the minimum requirement to qualify for total recovery of capacity charges. This was achieved despite the poor domestic coal supply situation and thanks to efforts of our Indian team to increase imported coal to meet our generation needs.

Availability also remained high at Paguthan. However, in common with other gas-fired generators in India, the high price of gas available for use in the power sector and the resultant high cost of electricity generation led to low levels of despatch from the plant. This is an industry wide issue and is expected to continue for the foreseeable future. In these circumstances, we renegotiated our power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited to take account of the changed market conditions. We believe the amended agreement will give us greater certainty for the rest of the PPA tenor until the end of 2018. We are currently looking at options for the future of the plant, including the possibility of adding some coal-fired units in our existing site.

In the meantime, we continued to expand our wind business in India. In 2014 there was a delay in the onset of the monsoon, which resulted in lower than expected levels of generation. Nevertheless, we are confident of the potential of the sector and commissioned more than 100MW of wind capacity during 2014, taking the total size of our wind portfolio to 1,081MW. We are also evaluating opportunities to invest in solar power, which is an area the new Government is keen to develop.

In the past few years, India's electricity sector has been challenging. Looking ahead, we are hopeful that things will continue to improve under a new government that has a reform agenda with a focus on infrastructure development. At the same time, we will continue to monitor the fuel supply situation to ensure reliable operation of our power stations.

Southeast Asia and Taiwan

Operating earnings from our investments in Southeast Asia and Taiwan in 2014 increased to HK$297 million, compared with HK$241 million in 2013. Earnings from Ho-Ping Power Company were higher mainly because in 2013 there was a one-off provision for a penalty imposed by the Taiwan Fair Trade Commission. Earnings from Lopburi solar project improved due to the commissioning of an 8MW expansion in May 2013 and higher solar irradiance.

In the coming years, we plan to continue to stay active in Taiwan and Vietnam, and monitor potential greenfield investment opportunities in countries such as Thailand, Indonesia, Laos and Myanmar.

Australia

CLP's operation in Australia continues to be affected by the challenging market conditions. In the wholesale market, declining demand from energy efficiency programmes, solar photovoltaic systems, and industrial closures continued to put pressure on electricity prices, whilst in retail we continued to experience intense competition. In this challenging environment, EnergyAustralia has focused on improving its operational performance, capability and cost structure in 2014.

EnergyAustralia's operating earnings increased from HK$126 million in 2013 to HK$756 million in 2014. The rise in earnings was attributed to lower depreciation and amortisation on reduced asset bases after the 2013 impairment, decreased finance costs resulting from lower interest rates, and lower bad debt provision, but partially offset by reduced electricity gross margin. The decrease in electricity gross margin was due to reduced wholesale margin brought mainly by falling forward prices, the impact of carbon tax and the related compensation repeal, and depreciation of Australian dollar, but benefited by increased retail margin.

After stabilising our integrated billing and customer care system in 2013, EnergyAustralia made a number of technical improvements to the system last year. These improvements underpinned the successful migration of 1.2 million EnergyAustralia customers from the old system onto the new one in November 2014. This has allowed us to terminate the Transitional Services Agreement (TSA) with the New South Wales (NSW) Government and lead to further retail cost, process and operational efficiencies improvements in 2015 and beyond. This is expected to result in savings in retail costs in the range of A$100 million per annum from 2016 compared with 2013. However, expenditure on IT systems to improve business performance may offset some of the savings.

As promised by the Federal Government, the Clean Energy Future legislation and all related liabilities, including the carbon tax regime, were repealed in July 2014. Removal of the scheme led to a reduction of earnings in the second half of 2014, as EnergyAustralia no longer receives any transitional support for Yallourn Power Station.

In November 2014, EnergyAustralia announced the permanent closure and decommissioning of Wallerawang Power Station in New South Wales. The closure was in response to ongoing weak wholesale prices and the lack of availability of competitively priced coal supply.

Other power station owners have lowered generation output or announced the mothballing of power plants in response to weak market conditions. This is a clear supply-side market reaction, as is to be expected. Such steps must be taken for the market to respond to overcapacity, falling demand and suppressed wholesale prices. Should oversupply in the wholesale market continue unabated, the value of generation assets may be at risk.

In 2014, an impairment provision of HK$1,578 million (A$248 million) was made on the Narrabri Coal Seam Gas Project, in which EnergyAustralia holds a 20% interest. The provision was made based on additional drilling data and analysis that reflected a reduction in the estimated total gas reserves and a fall in estimated daily production. Together with a gain on the early termination of an energy agreement (HK$152 million) and a one-off net tax credit (HK$545 million) relating to settlement of outstanding matters with the Australian Taxation Office, EnergyAustralia recorded a non-recurring loss of HK$881 million.

We now have in place a refreshed management team under the leadership of Catherine Tanna, who joined us in the middle of the year. Ms Tanna brings a wealth of experience and knowledge along with a fresh approach to the business. The strong, new management team at EnergyAustralia will make it a priority to optimise operations and portfolio position to restore value for shareholders.

Investment Strategy

In 2014 the Board approved an updated investment strategy, succinctly summarised as “Focus · Delivery · Growth”, for the CLP Group. The new investment strategy does not imply radical changes, but carefully measured and deeply thought out improvements and refinements to our existing strategy. In short, it recognises the challenges we face in the current business climate and identifies future opportunities so that we can build on the success we have achieved and position our business in markets where we have scale, capability and competitive advantages.

Our new strategy includes four key components. First, Hong Kong remains our core market and strategic focus. We are committed to building and growing here for the long term. In the longer run, we are well positioned to invest in southern China as we are confident that our long-term partnership with key industry players such as China Southern Power Grid and China General Nuclear will give us the competitive edge to further explore opportunities in the region.

Second, we are well-positioned in two of the most dynamically growing markets in the world – Mainland China and India. Our existing, diversified and well-established businesses in the two countries provide good platforms for future growth. Third, to the extent that capital is available, we will explore secondary growth opportunities in selective Southeast Asian countries.

Finally, the Australian energy sector is going through a period of significant change and faces formidable challenges ahead. We expect these challenges to continue over the coming years. As such, our strategy will focus on reducing costs, improving operational performance, managing exposure to generation, realigning the business to the new market paradigm and streamlining retail processes.

Conclusion

In the coming year, we recognise there are specific issues we need to address in each of our markets. In Australia, where market conditions are expected to remain extremely challenging, we are addressing those issues in our control by reducing costs, improving efficiencies and working to optimise our operations and portfolio position. However, there are no quick fixes to the issues the industry faces and should oversupply in the wholesale market continue unabated, the value of generation assets may be hard to sustain. Our focus in India will be to improve operational efficiency and ensure continuing access to imported coal, whilst growing our wind portfolio. In the Mainland, we will progress construction of Fangchenggang II and continue to develop renewables projects. In Hong Kong, we will continue to focus on our excellent operational and environmental performances and cost management, and will actively engage in the public consultation on the regulatory structure of Hong Kong's electricity sector.

For more details, please refer to the full version of "Announcement of Annual Results from 1 January 2014 to 31 December 2014, Dividend Declaration and Closure of Books".

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