

HD CLP Holdings Limited Announces 2014 Interim Results**WC** 1,846 words**PD** 19 August 2014**SN** ENP Newswire**SC** ENPNEW**LA** English**CY** (c) 2014, Electronic News Publishing. All Rights Reserved.**LP**

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In the first six months of 2014, the Group's operating earnings were HK\$4,768 **million**, a 22.4% increase over the same period last year, mainly due to increased earnings from our **Hong Kong** electricity business and improved performance in India and Australia.

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Total earnings - after the one-off net gain of HK\$1,953 **million** on the acquisitions of Castle Peak Power **Company** Limited (CAPCO) and **Hong Kong** Pumped Storage Development **Company**, Limited (PSDC) - were up 78.4% to HK\$6,721 **million**. The level of both the first and second interim dividends of 2014 has been increased to HK\$0.54 per share (2013: HK\$0.53 per share).

'During the first half, we have been focusing on improving performance across all our **operations** and growing our earnings. A number of improvements were made in different areas of the business, demonstrating our ability to cope with volatility and challenges in various markets.

Going forward, whilst a range of opportunities and challenges lie ahead of us, we will continue our dedication to operational excellence, supply reliability and professionalism to deliver cleaner **energy** in the Asia Pacific region,' said Richard Lancaster, Chief Executive Officer of CLP Holdings, at the Group's 2014 Interim Results Announcement media briefing.

Hong Kong

Our electricity business in **Hong Kong** remains the Group's largest earnings contributor with operating earnings of HK\$3,674 **million** in the first half of 2014, a 7.5% increase from the same period in 2013. The increase was due to higher average net fixed assets and share of additional 30% of CAPCO's earnings. The net gain of HK\$1,953 **million** on the acquisitions of CAPCO and PSDC included the deemed disposal gain of previously held interests in CAPCO (40%) and PSDC (49%).

During the first six months of this year, local sales of electricity increased 2.7% over the same period last year. Sales to the Mainland **China** decreased 0.5%. Total electricity sales increased by 2.5%. On 23 July 2014, local maximum demand hit a record high of 7,030MW. This represented an increase of 3.9% over the previous peak of 6,769MW recorded in 2012 and reduced our generation reserve margin to 26.4%.

In the first half of 2014, we invested HK\$3.1 **billion** in generation, transmission and distribution networks as well as in customer services and supporting facilities. Despite the heavy thunderstorms in May and June, CLP's supply reliability maintained at above 99.999% during this period.

We understand the potential impact of tariff adjustments on the community as a result of increased gas consumption to meet environmental policy objectives. To keep any movement within a manageable range, we have taken a number of measures to mitigate the impact of increasing fuel costs.

These include temporarily increasing the import of nuclear power from Daya Bay effective from the last quarter of this year through 2018, maximising the use of our less costly gas supply from the depleting Yacheng gas field, deferring and reducing the use of the pricier gas from Second West-East Gas Pipeline, using more low emission **coal**, enhancing the operational performance of our generation facilities and implementing stringent cost control measures.

In May, we submitted our response to the HKSAR Government's public consultation on Future Fuel Mix for Electricity Generation for **Hong Kong** by putting forward a 'phased and flexible' approach, which combines both planning for a small number of new gas units locally and a comprehensive study to see how the Mainland could provide **Hong Kong** with highly reliable supplies of low carbon **energy** at reasonable cost. As the Government prepares to undertake further consultations on the future shape of the power industry, we will continue to contribute our expertise and knowledge as best as we can.

Mainland **China**

Operating earnings from Mainland **China**, including our 25% **stake** in Guangdong Daya Bay Nuclear Power Station (GNPS), were down 20.7% to HK\$662 **million** largely due to depreciation of the Renminbi and divestment of some of our minority owned **coal** projects.

Lower contribution from Fangchenggang Power Station (Fangchenggang) as a result of a tariff reduction and the expiry of an income tax credit also impacted earnings. Whilst the financial performance of our **wind** portfolio remained stable helped by the commissioning of more **wind** farms, reduced generation from our hydro projects resulted in lower earnings from renewables. Earnings from Guangdong Nuclear Power Joint Venture **Company**, Limited were higher due to strong operational performance.

CLP's **coal**-fired projects continued to perform reliably in the first half of 2014, during which time **coal** prices declined and remained at low levels. At Fangchenggang, construction of Phase II (2 x 660MW ultra-supercritical units) has commenced after project approval from the National Development and Reform Commission was obtained in May 2014. Selective catalytic reduction equipment has been retrofitted at Fangchenggang Phase I to reduce nitrogen oxide emissions.

In the first half, we continued to expand our presence in the renewable **energy** sector, which is one of our major growth areas. We are pursuing approval for four wholly-owned **wind** projects with a total generation capacity of around 250MW. Construction of Xicun **Solar** Power Station in Yunnan and Sihong **Solar** Power Station in Jiangsu are targeted to complete by the end of the year. Going forward, we will continue our strategy of selective investments in renewable **energy**, nuclear power and highly-efficient **coal**-fired generation.

India

Our India business reported operating earnings of HK\$82 **million**, as compared to a loss of HK\$212 **million** in the same period last year, mainly due to improved performance of Jhajjar Power Station (Jhajjar) and a net translation gain on US dollar loans.

Jhajjar achieved a high availability of 80.4% in the six-month period, above the minimum level required for payment of capacity charges in full. Despite continuous **coal** shortages, our efforts to adjust local sourcing and the approval to import 2 **million** tonnes of **coal** have resulted in significant improvement of **coal** supplies.

In addition, we are in advanced discussion to increase the blending of imported **coal** from 35% to 50%. We expect to maintain the availability level for the whole year as the supply of **coal** improves. Whilst availability was high, utilisation was low at about 44.4% due to sluggish winter demand. Nevertheless, we expect utilisation will improve in the third quarter as demand picks up in summer.

During the first six months of this year, our gas-fired Paguthan Power Station continued to make the units available, on which capacity payments under the power **purchase** agreement (PPA) were based. Availability remained high at 84.2%. However, due to high gas price, our customer Gujarat Urja Vikas Nigam Limited (GUVNL) has decided to despatch cheaper power elsewhere, resulting in a low utilisation for Paguthan at 4.5%. We have renegotiated the PPA with GUVNL, pursuant to its request for a reduction in tariff emanating from low level of despatches.

The new arrangement includes a higher incentive threshold and sharing of some savings with the customer to help reduce its cost of power, whilst giving us greater certainty for the rest of the PPA-tenor.

CLP is the largest developer in **wind energy** in India and we see attractive investment and growth opportunities in the renewable **energy** sector. Three **wind** projects in Gujarat, Maharashtra and Rajasthan with a combined capacity of 100MW were commissioned in the first half of this year. However, due to the delay in the onset of the monsoon and the dust storm in Rajasthan, generation from our operational **wind** farms in the first half was lower than expected.

Southeast Asia and Taiwan

In the first half, operating earnings from Southeast Asia and Taiwan increased 79.4% to HK\$113 **million**. This was mainly due to a one-off fine in the previous year imposed on Ho-Ping Power Station by the Fair

Trade Commission of Taiwan and higher generation from the Lopburi **Solar** Farm in Thailand as a result of higher **solar** irradiance and the commissioning of 8MW expansion in May 2013.

Australia

Our Australia business recorded operating earnings of HK\$585 **million** as compared to a loss of HK\$45 **million** in the first half of 2013. This was mainly attributable to lower depreciation and amortisation on reduced asset bases after the 2013 impairment, lower finance costs and operating expenses (mainly costs for operating Mount Piper and Wallerawang and lower marketing expense), partially offset by reduced gross margin due to lower customer accounts and usage.

During the first half of 2014, EnergyAustralia made good progress in operational performance. However, the external environment remains challenging with ongoing declining wholesale market demand, heavy retail competition, and mild winter weather.

The generation business continues to be challenged by overcapacity and falling market demand, leading to further decline in wholesale electricity prices and historically low electricity price volatility. As a result of lower output from Wallerawang and planned maintenance outages at the Mount Piper and Yallourn power stations, EnergyAustralia's overall sent-out generation during the first six months was down 11.4%, compared with the corresponding period in 2013.

To respond to suppressed market conditions and significantly reduce future capital and operating costs, EnergyAustralia has closed and is decommissioning Unit 7 at Wallerawang Power Station and has removed Unit 8 from service.

As a result of high levels of competition as well as a business focus on stabilisation and integration, net customer numbers decreased by 66,800, or 2.5%, during the first six months of 2014. Mass market sales volumes for electricity and gas dropped 12.6% and 15.9% respectively compared with the same period in 2013. This reflects lower customer numbers, reduced usage per customer and mild weather conditions at the start of the 2014 winter.

Despite these difficult external conditions, we have improved **operations** under our control, most notably in the stabilisation of our new billing and customer care system, C1. Delayed billing has reduced significantly. In June 2014, we achieved a major milestone with the successful transfer of new sales accounts from the Ausgrid system onto the new system. Full system integration to migrate 1.3 **million** Ausgrid customers onto C1 is on track for late 2014, and is expected to deliver operational savings from 2015.

The Australian Government's recent repeal of the carbon tax will negatively impact our earnings in Australia in the short term. Nonetheless, longer term this change should enhance returns from our low-cost base load power stations.

Summary

Looking ahead, CLP will continue to focus on improving operational performance across the portfolio, whilst building on our unique competitive advantage in delivering cleaner **energy** to the Asia Pacific region.

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