

27 February 2017

Steady Performance Delivers Dependable Growth

Financial Highlights of CLP Holdings Limited's 2016 Annual Results

- Group operating earnings increased 7.1% to HK\$12,334 million driven by a 10% increase in the contribution from overseas businesses.
- Operating earnings from our local electricity business in Hong Kong rose by 4.6% to HK\$8,640 million.
- Total earnings decreased 18.8% to HK\$12,711 million mainly due to a significant contribution from the sale of the Iona Gas Plant in Australia in 2015.
- Consolidated revenue decreased 1.6% to HK\$79,434 million.
- Fourth interim dividend of HK\$1.09 per share; including the first three interim dividends paid, total dividends for 2016 were HK\$2.80 per share (2015: HK\$2.70 per share).

CLP Holdings Limited (CLP) is pleased to announce today that Group operating earnings in 2016 increased 7.1% to HK\$12,334 million from a year earlier. Total earnings were down 18.8% to HK\$12,711 million after taking into account one-off items that affected comparability including a significant contribution from the sale of the Iona Gas Plant in Australia in 2015. The Board has recommended a fourth interim dividend for 2016 of HK\$1.09 per share which, together with the three dividends already paid, brings 2016's total dividends to HK\$2.80 per share, an increase from HK\$2.70 in the previous year.

"Our "Focus · Delivery · Growth" strategy has worked well for us in the past two years. Despite the unpredictable events that occurred across the world in 2016, we have continued to operate our businesses in different regions steadily and reliably, delivering dependable growth," said Richard Lancaster, Chief Executive Officer of CLP, at the Group's 2016 annual results announcement media briefing.

"For our industry, climate change and technological evolution are bringing both opportunities and risks to which we must respond. These developments are very much at the forefront of our minds as we have been a pioneer in embracing new

technologies and changes throughout our century-old history. We are taking steps to address the challenges of climate change and are ready to seize opportunities in the digital space, with an emphasis on customer-centricity,” he continued.

Hong Kong

Although Hong Kong is seen by some as a mature market, we still see an increase in demand for electricity and its related delivery infrastructure. This is driven by a growing population and customer base as well as major infrastructure developments such as the expanding MTR network, the high-speed rail link and the Hong Kong-Zhuhai-Macao Bridge. We are always seeking better ways to serve our customers and are leveraging rapidly changing technology to provide them with more innovative solutions. As such, our business continued to grow steadily and we have consistently maintained a world-class reliability record. Operating earnings from our local electricity business in Hong Kong increased 4.6% to HK\$8,640 million.

Local electricity sales in 2016 rose 0.6% to 33,237 gigawatt hours (GWh) compared with the previous year and sales to the Mainland increased by 1.5% to 1,205GWh. Combined total electricity sales in 2016 increased by 0.6% to 34,442GWh.

In December 2016 we obtained approval from the Government to construct a 550MW gas-fired generation unit at our Black Point Power Station which will use the state-of-the-art combined-cycle gas turbine technology. Construction work has started and we aim to commission the new unit before 2020. The total estimated capital expenditure of the new gas unit is about HK\$5.5 billion.

In addition, we continued our discussions with the Government and other stakeholders regarding the proposal to build an offshore liquefied natural gas terminal in Hong Kong waters. The terminal will enable us to have direct access to a range of gas sources from around the world and strengthen the reliability of Hong Kong’s fuel supplies. We are progressing with various studies under the environmental impact assessment of the project, and are proactively engaging with potential suppliers to secure the additional supply of gas needed on a long-term basis. A final investment decision is expected by the end of 2018.

CLP strives to promote the use of renewable energy where practicable despite its constraints in Hong Kong. We have connected more than 250 renewable energy systems to our grid. One example is the support we provided for the Drainage Services Department to build Hong Kong’s biggest solar farm near the airport. We are also applying for an environmental permit from the Government to develop Hong Kong’s largest landfill gas power generation project that will produce 10MW of renewable power close to our Black Point Power Station.

The current Scheme of Control (SoC) Agreement will expire in September 2018. We are in discussions with the Government over a new agreement. The SoC Agreement has served Hong Kong well for over half a century and has been an effective tool in

meeting the Government's energy objectives and community aspirations. We look forward to reaching agreement with the Government.

We are equally committed to maintaining our excellent and innovative services for our customers and to stepping up our engagement with them through the offering of new products such as various digital platforms and visits to our new smart energy experience centre. As we expect electricity demand to continue to grow in our supply area on the back of new infrastructure developments and population growth, we need to keep pace with evolving customer needs, enabling their energy management and offering them more choice.

As Hong Kong's largest power company, we will also work closely with the Government to play our part in achieving its 2030 climate targets, supporting our city's transition to a greener and smarter future.

Mainland China

During the year, the slowing economic growth and electricity demand in Mainland China impacted our business, with our coal-fired projects being the most hard hit. The decline in our coal-fired generation business was driven by three major factors which included lower utilisation, higher coal costs and reduced tariffs. By contrast, our renewables business held up well and performance at Daya Bay Nuclear Power Station was strong. Taking these factors into account, operating earnings in 2016 dropped from HK\$1,977 million to HK\$1,521 million.

The financial performance of Fangchenggang Power Station was affected by the economic slowdown, competition from both nuclear and hydro projects in the Guangxi Zhuang Autonomous Region as well as the discounted tariffs of increased direct sales. Because of these short-term adverse circumstances and the substantial environmental investment to enable Fangchenggang Power Station to effectively compete in the presently oversupplied market, we have booked a HK\$199 million impairment to the carrying value of Fangchenggang's cash generating unit. Nevertheless, we remain optimistic about the long-term prospect of Fangchenggang due to its strategic location. We will continue to mitigate the pressure on utilisation by participating in direct sales programmes in the coming year.

In the fourth quarter of 2016, we commissioned Phase II of Fangchenggang Power Station which utilises the cleanest and most advanced ultra-supercritical coal technology to ensure it meets the latest environmental regulations.

On the other hand, earnings of renewables rose by 27.4% to HK\$404 million, largely driven by increased contributions from our hydro projects as well as new wind and solar projects. In 2016, we continued to expand our renewable investment and added new capacity of 275MW. This lifted the size of our renewable portfolio in Mainland China to over 2,000MW. The earnings contribution of our renewable portfolio approached that of our coal projects. Meanwhile, earnings from our 25%

stake in Daya Bay Nuclear Power Station increased by 2.3% as the plant continued to operate reliably with high utilisation rate.

Towards the end of 2016, we announced the signing of a conditional agreement with CGN Power to acquire a 17% holding in Yangjiang Nuclear Power Co., Ltd. The investment enables us to build on the very successful partnership with CGN established since Daya Bay Nuclear Power Station and puts us in a strong position to benefit from the growing prosperity of the Pearl River Delta. It also represents a further step towards achieving the goals we have set out in our “Climate Vision 2050”. We expect the acquisition to have a positive impact on our future earnings from completion, which is expected to take place in the first half of 2017.

With our diversified generation portfolio and an increasing share of non-carbon capacity, we are well-positioned to participate in the energy transition in China and withstand the impact of declining utilisation of our coal projects. In the coming years, we will focus on further expanding our clean energy portfolio, although we expect competition for new renewable projects will be keen and an evolving market regime is likely to affect their performance.

India

In 2016, our coal-fired Jhajjar plant and gas-fired Paguthan project reported steady operational performance. Jhajjar achieved a record availability of 93% and Paguthan 94%. However, we reported a drop in operating earnings to HK\$469 million because we booked several one-off gains in 2015 that were not repeated in 2016.

During the year, we continued to develop our renewable energy portfolio and construction of our maiden solar project in southern India is progressing. The electricity produced by our wind farms in 2016 was 16% higher than in 2015 due to additional capacity added in the second half of 2015. The commissioning of these new projects has consolidated our position as one of the biggest renewable energy developers in India. Although India is still a coal-dependent country, it has been making clear moves to reduce dependency on fossil fuels. As a clean energy advocate, CLP will continue to support this policy by making further investments in the renewable energy sector. This is also where we see our long-term growth opportunities.

The slowdown in the economy in recent months has led to softer demand for power in India. The Government’s demonetisation initiative in November 2016 to curb black money and the implementation of a goods and service tax reform are expected to further dampen short-term economic growth. But in the long run, we expect these reforms to put India on a stronger footing towards improving transparency and better compliance, benefitting the business sector.

We remain confident of the future prospects of India’s power industry and will continue to contribute to the country’s transition to a low carbon future through

investing in renewable energy projects, including the possibility of decentralised generation, and potentially in transmission infrastructure to bring that energy to customers.

Southeast Asia & Taiwan

During the year, our operational performance in Southeast Asia and Taiwan continued to be strong. However, operating earnings decreased slightly to HK\$274 million in line with Ho-Ping's tariff adjustment that reflected the lagging effect of lower coal prices in the prior year. Development of our two coal-fired projects in Vietnam has progressed well.

Australia

While the operating environment in Australia's power industry remained challenging in 2016, EnergyAustralia's financial performance continued to improve. Our strategy that puts customers first, together with high availability and power production from our generation facilities in a tightening wholesale electricity market, has enabled us to deliver improved operating and financial results. During the year, operating earnings more than doubled to HK\$1,849 million. The reduction in debt following the Iona sale has also had a positive impact reducing overall interest cost.

In our retail business, the number of EnergyAustralia's customer accounts remained stable in an intensely competitive environment. Most importantly, our customers are staying longer, churn was lower and there were fewer complaints, reflecting improvements in service.

In ongoing support of our business, last December, EnergyAustralia announced it would sign agreements that underpin the development of around 500MW of new wind and solar energy projects across eastern Australia. This confirms our significant support of the country's renewable energy developments and EnergyAustralia's commitment to the Australian Government's Renewable Energy Target to achieve 23.5% of total energy in the national electricity market provided by renewable energy by 2020.

In October 2016, EnergyAustralia committed to invest A\$9 million in an Australian business, Redback Technologies, which combines smart home technology with battery storage. The partnership plans to roll-out the second generation of this technology in the first half of 2017.

Innovation

The digital revolution is changing the face of our industry and offers many exciting opportunities. Our business in the next five to ten years may be very different to what it is today. We will be part of the smart infrastructure in the city, and we need to be proactive in playing that role. We need to build our capability and develop a

strategy to manage data on a very large scale. We also need a platform so that all of the smart devices can plug into our electricity system. All of that will need to happen on our grid and right across our business.

In 2016, we set up an innovation team to work on these areas and good progress has already been made. Our focus is twofold. First, we aim to leverage all these technologies and information to get better at what we do. The other focus is developing new areas for our business. An example of this is the Smart Charge initiative with HKT in Hong Kong to provide one-stop charging service to electric vehicle drivers. In addition to our new investment in Australia in Redback Technologies, EnergyAustralia continues to examine a wide range of opportunities for customers, so the business is capable of thriving as the energy sector evolves.

Looking ahead, we will continue to work hard to provide the reliable and safe electricity supply that our customers deserve. Similarly, we will concentrate our resources on measures to lower emissions through innovative solutions. In addition, we are preparing with a careful and innovative approach for the opportunities and challenges we see presented by the digital revolution. CLP has a long history of growth and financial stability and there is every reason to believe that this credible record will continue long into the future.

For more details, please refer to the full version of ["Announcement of Annual Results from 1 January 2016 to 31 December 2016, Dividend Declaration and Closure of Books"](#).

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Media Contact

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

Analysts Contact

Mr Angus Guthrie
Director – Investor Relations
CLP Holdings Limited
Email: ir@clp.com.hk