中 電 控 股 有 限 公 司

CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

(Stock Code: 00002)

Announcement of Annual Results from 1 January 2018 to 31 December 2018, Dividend Declaration and Closure of Books

Financial Highlights

- Group operating earnings increased 5.1% to HK$13,982 million, mainly reflecting robust performance from businesses outside Hong Kong and impact from a lower permitted rate of return in Hong Kong from 1 October 2018.
- Operating earnings from our local electricity business in Hong Kong decreased by 3.4% to HK$8,558 million, while operating earnings from our businesses outside Hong Kong increased by 29.6% to HK$6,199 million.
- Total earnings decreased 4.9% to HK$13,550 million.
- Consolidated revenue decreased by 0.7% to HK$91,425 million.
- Fourth interim dividend of HK$1.19 per share; including the first three interim dividends paid, total dividends for 2018 are HK$3.02 per share (2017: HK$2.91 per share).

CHAIRMAN'S STATEMENT

I have the pleasure of reporting excellent annual results of the CLP Group for 2018. Our strong performance is a testament to our strategy to provide secure, affordable and sustainable energy to our customers and create value for our shareholders by investing for the long term.

The Group's operating earnings for the year increased 5.1% to HK$13,982 million. Total earnings decreased by 4.9% to HK$13,550 million, largely due to favourable one-off items in 2017. These figures reflected the combination of continued robust performance in our overseas businesses and dependable earnings from our Hong Kong base. They also allowed the Board to approve a fourth interim dividend of HK$1.19 a share. Total dividends per share for 2018 are HK$3.02, a 3.8% increase from 2017.

2018 saw changes to our Board with the retirement of Ms Irene Lee and the appointment of Ms May Tan and my son, Mr Philip Kadoorie. I would like to thank Ms Lee for her excellent contribution to the Board and I look forward to working closely with May and Philip. While the Board continues to serve the Company very well, this year we introduced some changes to our governance practices designed to ensure the gradual refresh of skills and experience on the Board over time so we can continue to have the best Board for the Company in the years ahead. More details on these changes can be found in the Corporate Governance Report of our 2018 Annual Report.

Our success in building a diversified business across the Asia-Pacific region again proved its worth in 2018. In our home market of Hong Kong, the new 15-year Scheme of Control (SoC) Agreement took effect in October, which has enabled us to move forward with our long-term investment plans in support of the Hong Kong Government's low-carbon policy. In the near future, we will have two new gas-fired power generation units at Black Point Power Station which are much more energy and carbon efficient than coal-fired units. We are also constructing an offshore LNG terminal that will improve Hong Kong's energy security with access to international sources of natural gas supplies. These initiatives are key to achieving the Government's objectives of generating about half of Hong Kong's electricity from natural gas by 2020 and reducing carbon intensity by 65-70% by 2030, compared to 2005 levels.

Towards the end of 2018, the Group took an important step in the development of our India business with the addition of Caisse de dépôt et placement du Québec (CDPQ), one of Canada's largest pension fund managers, as a 40% shareholder. The introduction of CDPQ as a partner brings the long-term strategic backing and additional resources that will support CLP India's growth primarily through the opportunities arising from the decarbonisation and consolidation of India's power sector. The transaction also underscores the underlying value of the assets and reputation we have built in India, where we are one of the country's largest renewable power producers as well as one of the largest foreign investors in the electricity sector.

In Mainland China, our investment in the Yangjiang nuclear power plant contributed full-year earnings for the first time in 2018. With the expected completion of the sixth and final unit at Yangjiang in 2019 and the growing importance of nuclear energy under the country's carbon reduction policy, we look forward to many years of contributions from Yangjiang in addition to the stable earnings CLP has enjoyed over the last two decades from our first nuclear investment, Daya Bay. The regulatory reform process in China continues as the economy develops and the energy transition progresses. We continue to follow these developments closely as we look for ways that CLP can support China's transition to a lower-carbon future.

We have worked with our customers and the Governments in Australia, where more coordinated planning and stable energy policies are needed to ensure that the stated objective of reducing reliance on coal-fired electricity is realised without compromising reliability and affordability. To assist the transition we have not only contracted for new renewable energy projects, but are focusing our efforts on projects that will help stabilise and support the system as more intermittent sources of renewable energy come in. These include batteries, pumped storage, and gas plants that can be used at times of peak demand.

CLP is keenly aware of the important role that electric utilities have in moving to a lower-carbon world. We were pleased to see that the climate talks at the COP24 held in Poland in December 2018 resulted in consensus on the rulebook required for the implementation of the Paris Agreement. Recent scientific research makes it clear that the world needs to accelerate decarbonisation efforts if we are to avoid even more destabilising climate change. With that objective in mind, we encourage a further tightening of the pledges made under the Paris Agreement. On our part, in 2018 we strengthened the commitments originally made more than a decade ago in our Climate Vision 2050 pledge and with the aim of ensuring we continue to do our part to meet these challenges, we undertake to review our targets at least every five years.

The electricity supply industry is at the early stages of an exciting period of innovation and technological change. Improved technologies create new possibilities for electric utilities to deliver our products and services in a clean, reliable and affordable fashion, and to give our customers greater choice and control over the way they use electricity. The need to move more quickly toward a low-carbon future provides a further spur to action. We have seen an increased interplay between powerful digital technologies and more rapid adoption of renewable sources of energy. The Group is well positioned to make best use of these technological changes in building a sustainable business. A number of projects pursued during the year are discussed by the Chief Executive Officer in his Strategic Review.

Safety is the Group's top priority. It is with sadness that I must acknowledge the deaths of one of our employees and one of our contractors' workers in separate accidents in 2018. On behalf of the full Board, I wish to extend my deepest condolences to the families of those who lost their lives. We have been dedicating great effort to safety. Unfortunately these fatal accidents are a sad reminder that no matter how much efforts we deploy, risks will never be nil and our pursuit of progress in this field should be continuous and relentless. Our endeavour is to make sure everybody, whether an employee or a contractor, goes home safely at the end of the day.

The Honourable Sir Michael Kadoorie

CEO'S STRATEGIC REVIEW

CLP's solid operating performance in 2018 is all the more pleasing to report amid rapidly evolving international conditions and the new realities brought by climate change. The widespread power interruptions caused by Super Typhoon Mangkhut in the region in September is a case in point that we will have to be increasingly vigilant in ensuring that our systems are sufficiently robust.

At the same time, we have seen further reduction in the cost of producing zero- and low-carbon energy and the emergence of increasingly sophisticated digital tools which enable us to manage a system that is becoming more and more complex.

Against this backdrop, CLP has continued to deliver on our purpose which is to provide reliable, clean and affordable electricity to our customers. Our strategy is to transform into a "Utility of the Future" which engages directly with our customers and progressively decarbonises our portfolio. We do this by leveraging new and emerging technologies so that we can continue to deliver on our purpose and grow the business. I am pleased to report that, in the past year, we made further strides in this direction.

Hong Kong

The new SoC Agreement took effect on 1 October with a lower permitted rate of return, as did the first 5-year Development Plan under the Agreement that provides for a capital spending of HK$52.9 billion. The investments contemplated under the plan will help us support Hong Kong in meeting its carbon reduction goals and ensure supply security. Expansion of our Black Point Power Station with the two advanced combined-cycle gas turbine generation units enables the gradual retirement of the four oldest coal-fired units at Castle Peak Power Station. Meanwhile, we are constructing an offshore LNG terminal that will guarantee the diversity, and thus the security and cost competitiveness, of future gas supplies. We will also increase the transmission capacity of the existing cross-border transmission overhead line circuits connecting Hong Kong and Mainland China. The new SoC Agreement is our greenest so far and includes important initiatives to promote local renewable energy development, energy efficiency, and conservation. A Feed-in Tariff scheme (FiT), Renewable Energy Certificates (RECs), and a new CLP Eco Building Fund were launched to support these goals.

Hong Kong, one of the world's most densely populated and vertical cities, is an ideal laboratory for developing technologies that will improve our customers' experiences. Among other measures, we began a general rollout of smart meters for our customers. This technology not only enables our customers to better manage their electricity consumption, but also helps CLP improve supply reliability and the efficiency of our operations.

In 2018, electricity sales in Hong Kong grew by 1.5%, underpinning the need to continue investing in energy security, capacity, and reliability. Our basic tariff was cut 3.7% on 1 October, in line with the lower return under the new SoC Agreement.

During the year, operating earnings from our Hong Kong electricity business decreased 3.4% to HK$8,558 million.

Mainland China

We continued to support Mainland China's transition to a low-carbon economy through our investments in nuclear and renewable energy sources, which contributed the bulk of our earnings in the country.

Yangjiang Nuclear Power Station in Guangdong for the first time made a meaningful contribution to our earnings, following the completion of the acquisition of our 17% equity interest in the facility in December 2017. The operation of Daya Bay Nuclear Power Station remained strong and our long-term investment in the plant continued to constitute a stable component of the Group's earnings.

In 2018 our Mainland China renewables portfolio benefitted from ample wind and sun resources and lower grid curtailment. Our solar portfolio expanded to 292MW after the purchase in May 2018 of the remaining 49% of a project in Gansu Province and the commencement of commercial operation of a new plant in Liaoning Province in July 2018. New wind projects in Shandong Province, one preparing for connection to the grid and one committed to construction, will further strengthen our wind portfolio going forward. Our renewable portfolio now amounts to over 1,700MW while zero-carbon generating capacity (including nuclear) is more than 4,200MW.

Performance of Fangchenggang Power Station improved, reporting a higher output as it benefitted from the economic growth in Guangxi Autonomous Region and less competition from hydro generation. However, our coal projects continued to face the triple challenge of high coal cost, low tariffs and low utilisation.

Operating earnings for the year were up 74.7% to HK$2,163 million, driven by the growth and strong operating performance of our zero-carbon assets.

India

In 2018, energy produced by our renewable energy assets in India was the highest ever, as resources were more favourable than usual, the availability of our assets had been high and the Veltoor solar project made its first full-year contribution.

Our coal-fired Jhajjar facility performed well despite a longer-than-projected planned outage. Utilisation rate and sent-out reached new records, reflecting the importance of our asset in responding to growing demand. Unfortunately, we continued to be affected by coal shortage and quality issues in connection with the industry’s logistic challenges at large. The Power Purchase Agreement (PPA) for our gas-fired Paguthan power plant expired in December 2018. This is an excellent asset and we continue to explore long-term options for the project, although the lack of affordable natural gas makes this challenging.

Meanwhile, our new partnership with CDPQ will allow us to grow our zero-carbon electricity generating portfolio in one of the world’s largest and fastest-growing economies at a time when the industry is ripe for consolidation.

During the year, operating earnings of our India business dropped 11.6% to HK$572 million.

Southeast Asia and Taiwan

Our operations in Taiwan returned to normal after the completion of a planned major overhaul at the Ho-Ping coal-fired power plant. The Lopburi solar plant in Thailand recorded stable and satisfactory operations.

In the past decade, Vietnam’s policy has called for coal-fired generating plants to support its economic growth. In 2018, our negotiations with authorities continued regarding commercial and financial arrangements for the Vung Ang II and the Vinh Tan III projects. As a reliable partner, CLP continues to assist Vietnam and its utility to explore options to progress these two legacy developments. However, we note that the availability of international financing for new coal facilities is becoming increasingly difficult to secure and we are mindful of the changing international context and the commitments we have made under our Climate Vision 2050.

In 2018, operating earnings in Southeast Asia and Taiwan reached HK$162 million, reflecting the good performance of our projects and higher coal costs.

Australia

2018 was again a year of very tight supply-demand balance, resulting in high wholesale prices while our generating assets continued to perform well. On the other hand, fierce competition and our restraint in passing through higher costs to customers led to lower sales and margins.

While wholesale electricity prices were high during most of 2018, pricing is expected to soften in 2019 as a large number of wind and solar projects come online. Now more than ever, careful planning will be required to ensure stable and reliable electricity supply. EnergyAustralia's initiatives to help the country transition to clean energy include pumped hydro, battery storage, and gas-fired generation, which will provide the flexible and affordable capacity for meeting peak demand. Fundamentally, a national energy policy is required along with comprehensive planning to help ensure adequate electricity supply and to stabilise prices as Australia moves toward a low-carbon electricity generation.

Volatile electricity prices are not in the interests of either the country or its electricity supply companies. They also brought about high retail prices which caused difficulties for customers. To ease cost pressures, EnergyAustralia rolled out a range of programmes to lower the cost of energy and put our customers in control of the energy they use.

In 2018, operating earnings from EnergyAustralia increased 20.6% from a year earlier to HK$3,302 million.

Performance Highlights

Operating Earnings[1] by Market:

	Contribution to Operating Earnings[1] (%)
Hong Kong	58
Mainland China	15
India	4
Southeast Asia and Taiwan	1
Australia	22

Customer accounts[2]: 5.15 million

Electricity sent-out[3]: 91.9 terawatt hours (TWh)

Notes
1 Before unallocated expenses.
2 Including 2.60 million in Hong Kong and 2.55 million in Australia.
3 Equity basis as well as long-term capacity and energy purchase arrangements.

Safety

Safety always comes first at CLP. As the Chairman noted, during the year we were saddened by the deaths of one employee and one worker of our contractor in Australia. I reported previously that in 2017 we carried out a thorough review of our health and safety practices under the supervision of the Board, which approved a new Health, Safety and Environment (HSE) Improvement Plan in May 2018. Our goal is to raise our safety culture, rethink our risks, and build a healthy and engaged workforce. The fatal accidents remind us that we must continue to relentlessly develop our efforts to understand the cause of such tragic accidents and prevent them because, as I have said before, a job is not done well if it is not done safely.

Innovation

Recognising what the digital evolution means to the world and our industry, we have made innovation a priority in our long-term goals for the Group. Seeing it as a key enabler for our transition, we have made direct investments to bring in the best-of-breed technologies for optimising our existing operations and developing new products and services for our customers. We are also committed to developing the right tools for our customers so that they can have more visibility and control of their energy usage. And we have teamed up with new partners including start-ups and universities to speed up the development of smarter and cleaner energy services.

During the year we invested in AutoGrid, an energy management software developer based in Silicon Valley. Along with Alibaba Entrepreneurs Fund, we also made an investment in En-trak, a Hong Kong-based energy management and smart lighting solutions provider. Our collaboration with TUS-Holdings Co., Ltd., which is affiliated with the Tsinghua University in Beijing, will focus on new energy and smart city technologies throughout the Greater Bay Area, building on our decades of investment in the Pearl River Delta and continuing our collaboration with leading Chinese institutions. To tap into the capability of the world’s most dynamic innovators, we joined Free Electrons, a global accelerator programme bringing utility companies and start-ups together to develop digital energy technologies with commercial potential. In Australia, EnergyAustralia formed a partnership with Startupbootcamp to scout for new ideas for the energy industry from start-ups around the world.

Outlook

In spite of the challenges in the rapidly-changing energy sector, our business continued to grow steadily in the last few years as we have focused on managing our operations professionally and delivering a dependable, increasing return to our shareholders. Looking ahead, our transformation pathways through decarbonisation and digitalisation are clear and they provide us with good opportunities to grow.

Electricity will play a growing role in a zero-carbon economy. The Energy Transitions Commission, an international industry organisation of which CLP is a member, projects that the world must achieve net zero emissions around 2060 to avoid potentially catastrophic climate change. To achieve that in a cost-effective way will require electricity’s share of the total energy mix to rise from 20% to 60%, with annual generation quintupling from 20,000TWh to 100,000TWh.

By the sheer size of their population, the impact of the energy transition will be very material in Mainland China and India, CLP’s major growth markets. Nuclear power can contribute to this transition, but most of the new generating capacity will come from renewable sources - wind, solar and water. While the economics of renewable energy have changed in recent years such that renewables can increasingly compete against conventional sources of power without subsidies, the market place is also becoming more competitive. Based on our strong foundations in China and India, we will continue to strengthen our capabilities as a regional renewable energy developer and operator to seize the opportunities amid this growing competition.

In Hong Kong, our focus will be on delivering the investments and initiatives under the 5-year Development Plan which all aim at contributing to the city’s cleaner, smarter and less carbon-intensive future. CLP will continue to support the Hong Kong Government’s future clean energy policies including the recommendations arising from the upcoming Public Consultation on the Long-term Decarbonisation Strategy. In Australia, we will continue to invest in clean and flexible capacity to ensure the reliability and affordability of power supply as the country moves away from fossil fuels towards renewable energy sources.

As power grids become increasingly decarbonised, customers both produce and consume power and assets become increasingly distributed across the grids, the task to build and operate power grids becomes more complex. We expect to see an accelerated development of a diverse range of products including transmission, storage, distributed energy as well as digital and customer-facing solutions, making decarbonisation and digitalisation interdependent. We have the ambition to become a “Utility of the Future” capable of managing the additional complexity, developing new products, services and solutions along the entire value chain, and empowering customers to become active participants of a power system.

By combining our extensive experience, capability and partnership network developed through various innovation initiatives over the past few years, the Group has already laid a solid foundation for developing customer-oriented and technology-enabled energy solutions. CLP is well-positioned to take advantage of the accelerating pace of technological advance and respond to climate change in an industry with positive growth prospects.

Richard Lancaster

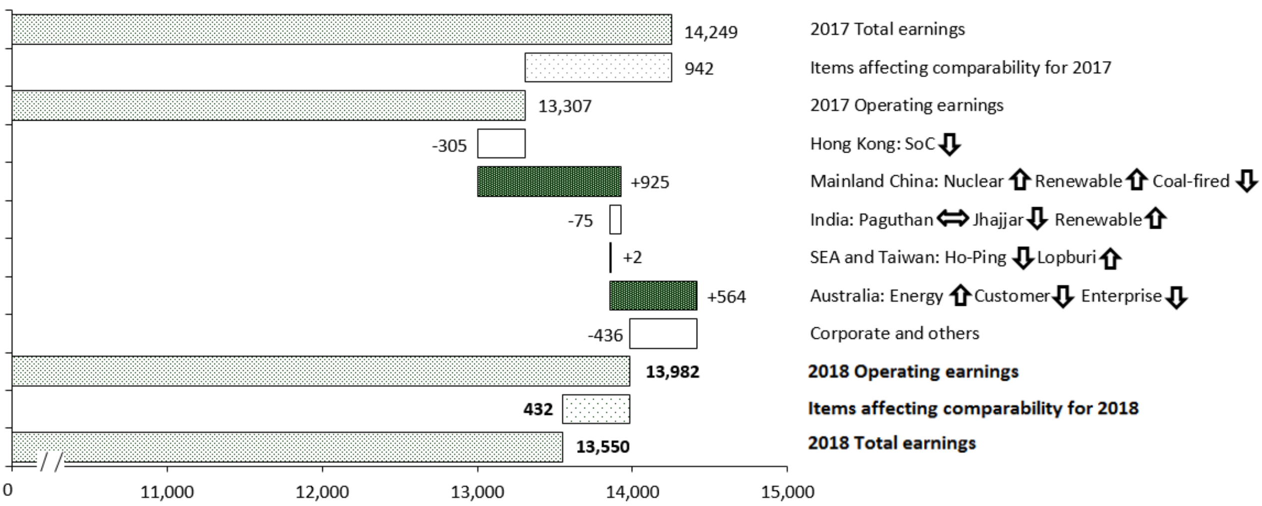
FINANCIAL PERFORMANCE

Group operating earnings increased 5.1% to HK$13,982 million driven by higher earnings from Australia and Mainland China partially offset by lower permitted rate of return in Hong Kong since October; total earnings decreased 4.9% to HK$13,550 million.

	2018 HK$M	2017 HK$M	Increase/ (Decrease) %
Hong Kong electricity business	**8,558**	8,863	(3.4)
Hong Kong electricity business related*	**227**	335	
Mainland China	**2,163**	1,238	74.7
India	**572**	647	(11.6)
Southeast Asia (SEA) and Taiwan	**162**	160	1.3
Australia	**3,302**	2,738	20.6
Other earnings in Hong Kong	**(92)**	(65)	
Unallocated net finance costs	**(54)**	(2)	
Unallocated Group expenses	**(856)**	(607)	
Operating earnings	**13,982**	13,307	5.1
Items affecting comparability			
Property revaluation	**18**	369	
Impairment provision	**(450)**	-	
Reversal of tax provision	**-**	573	
Total earnings	**13,550**	14,249	(4.9)

* Hong Kong electricity business related includes PSDC, Hong Kong Branch Line and sales to Guangdong from Hong Kong

Earnings for the Year (HK$M)



The performance of individual business is analysed under individual business section.

BUSINESS PERFORMANCE

Electricity Business in Hong Kong

Financial and Operational Performance

Overview

CLP continued to deliver a dependable, safe, and environmentally responsible service in 2018, a year in which customer numbers increased from approximately 2.56 million to 2.60 million.

Sales of electricity within Hong Kong rose slightly by 1.5% to 33,662 gigawatt hours (GWh) compared with the previous year. The increase was driven mainly by demand from the commercial, and infrastructure and public services sectors. Sales to Mainland China decreased 58.5% to 556GWh as our contract to supply electricity to Shekou in southern China expired in June 2018. As a result, total electricity sales in 2018 saw a marginal decrease of 0.8% to 34,218GWh.

In 2018, operating earnings from our electricity business decreased 3.4% from the previous year to HK$8,558 million as the new SoC Agreement came into effect from October with a permitted rate of return set at 8.00% compared with 9.99% previously. The Agreement provides a clear and certain regulatory framework for the future development of the electricity sector in Hong Kong, enabling us to plan ahead and make the appropriate investments to meet the Government’s energy policy objectives.

Overcoming a Severe Test of Our Resilience

Our power system experienced one of the biggest challenges in its history in September when Hong Kong was battered by Typhoon Mangkhut, the most powerful storm to hit the city for decades. Although our generation units and power grid remained intact and power supplies to the majority of our customers were maintained, the severity of the storm and its consequential damage to our network in rural areas were unprecedented. Power supplies to some of our customers were affected, in particular those in remote areas where roads were blocked by fallen trees and debris, making access and repair work extremely difficult.

Despite the enormous challenges, our employees and contractor workers carried out the restoration work safely and efficiently, with an aim to bring power back to the affected customers in the shortest time possible. The effectiveness of the response was testament to the investment we have made in strengthening our infrastructure over the years, and underscored our commitment to serve customers reliably in the most extreme situations.

With the frequency and intensity of extreme weather events expected to increase because of the impact of climate change, CLP is allocating more resources to further enhance the resilience of our network and the coordination with other stakeholders and the Government on vegetation management and response during these critical periods.

Investing for a Cleaner Tomorrow

We are increasing our investments to integrate more clean energy into the power system in support of Hong Kong's transition to a low-carbon future. In July, the Government's Executive Council approved CLP's Development Plan for October 2018 to December 2023 which includes provisions for significant investment to address and mitigate the effects of climate change.

The HK$52.9 billion of capital projects planned over the period include the construction of a second gas-fired generating unit of around 550MW at Black Point Power Station. The new unit, expected to be ready by 2022/2023, will adopt an advanced combined-cycle gas turbine (CCGT) design. With the first 550MW advanced CCGT due to go into operation in 2020, the two new units will support the Government's environmental and fuel mix objectives, allowing the gradual phaseout of the four oldest coal-fired units at Castle Peak Power Station when they reach the end of their operating life in mid-2020s.

Another important project necessary to support the increase in gas within our fuel mix is the construction of an offshore LNG terminal, which will allow us to purchase competitively-priced LNG directly from more diversified global sources. An environmental permit has been granted after a thorough review of the project's Environmental Impact Assessment Study by the Environmental Protection Department. We have commenced preparation for site investigation and front-end engineering design, while good progress has also been made in finalising the contractual arrangement for the supply of LNG and the chartering of the Floating Storage and Regasification Unit (FSRU) vessel for the project.

Under the SoC Agreement, a number of green initiatives have been introduced to encourage community's participation in moving Hong Kong towards a smarter, greener future. The FiT scheme, which enables customers to generate their own renewable energy, received over 1,400 applications up to the end of 2018. For those customers who want to support the development of renewable energy but do not have the opportunity to build their own system, they can purchase RECs which represent locally generated renewable energy starting from January 2019. Other initiatives include the new CLP Eco Building Fund, the Community Energy Saving Fund (CESF) and energy audits to help our customers save energy and to raise public awareness about the need for power conservation.

Transforming into a "Utility of the Future"

Innovation and technology are the driving forces behind Hong Kong's transformation into a smart city. In 2018, CLP implemented a range of significant initiatives to support this vision.

One of the most broad-reaching programmes is the introduction of smart meters across our supply area to replace 2.3 million conventional meters in phases from now to 2025. Smart meters provide customers with a range of digitalised services and solutions to encourage energy saving. They also give CLP greater end-to-end visibility of conditions in the power system, enabling improved fault detection, reduced repair times during critical events, and faster power restoration. Their introduction will enhance overall supply reliability and power safety for customers.

As part of our innovation journey, we deployed the best available technology and ideas in our operation to make sure our assets perform at the highest standard. These included using robots to inspect boilers to enhance safety and operational efficiency, and adopting the airborne Light Detection and Ranging (LiDAR) scanning technology for overhead line and tower maintenance. Analytics models on operational data such as emission analysis and meter irregularity detection have also been developed to improve asset performance.

Powering Hong Kong's Growth

CLP is fully committed to meeting the development needs of Hong Kong through supporting a large number of territory-wide development and infrastructure projects with our expanding power supply network. Major projects include the Kai Tak redevelopment, the West Kowloon Cultural District, the Lok Ma Chau Loop, and landmark transport development schemes such as the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Boundary Crossing Facilities Island and the Guangzhou-Shenzhen-Hong Kong Express Rail Link. In addition, as Hong Kong becomes a data centre hub, we will ensure highly reliable power supplies to support and facilitate the development of this energy-intensive industry.

In December 2018, we signed a Power Supply Collaborative Agreement with the Hong Kong Airport Authority, under which CLP will build new substations and provide power supply facilities for the Three Runway System.

Reinforcing Our Safety Culture

Safety is our utmost priority. Throughout 2018, we continually improved our safety performance and have reduced our injury rates. To reinforce our safety culture, we took steps to strengthen our safety management system through safety leadership training, work processes streamlining and work practice review with worldwide benchmarking. More details can be found in the Human Capital chapter of our 2018 Annual Report.

Environmental Performance

Air Emissions

Improving air quality is a critical step in creating a greener and healthier living environment in Hong Kong. We deploy a comprehensive and robust system for our generation portfolio and continuously monitor our environmental performance to ensure full compliance and explore opportunities for further improvement.

We complied with all the emission caps set by the Government in 2018 while maintaining supply reliability and a reasonable tariff level by optimising our diversified fuel mix, and maintaining the effectiveness of our emissions control facilities.

Although the power sector is no longer the largest emitter of air pollutants in Hong Kong, we will continue to look for cleaner fuel and new technologies to help us reduce emissions further.

Environmental Regulatory Compliance

All Hong Kong assets under our operational control maintained full compliance with environmental regulations in 2018.

Outlook

Hong Kong is our home and CLP's core market. In October 2018, the new SoC Agreement came into effect, providing many benefits to our customers and shareholders. The coming years will reflect both the lower permitted rate of return and the growth in asset base resulting from the investments agreed with the Government. We will work tirelessly to deliver our 2018-2023

Development Plan in support of the Government's carbon reduction targets and environmental policies, while providing the vital electricity infrastructure needed to ensure a reliable and stable electricity supply for Hong Kong's continuing dynamic development.

As part of a broad-ranging series of measures to meet those environmental goals, we are pressing ahead to develop the offshore LNG terminal and to construct the two new CCGT units. We are also committed to playing a leading role in the development of renewable energy in Hong Kong by connecting the Government's large-scale waste-to-energy projects along with other smaller-scale projects to our grid, while exploring other utility-scale renewable energy opportunities.

We will implement the improvement measures and work closely with relevant government departments to prepare CLP for managing the challenges of adverse weather due to climate change including the increasingly serious typhoons with the objective to minimise the impact to our customers and to our systems.

As Hong Kong transforms itself into a smart city, we will play our part by providing a greener, smarter, and highly reliable energy system whether through direct investments, such as in smart meters, or by acting as a coordinator for others, such as accelerating power supply service for data centre operations; assisting elderly home operators with innovative solutions to ease their operations and help improve the quality of life of senior citizens; supporting wet market modernisation and central kitchen transformation. We will connect different trades and industries and help them adopt smart, green solutions that meet their business needs.

The Council for Sustainable Development is planning a public consultation in 2019 on a decarbonisation strategy for Hong Kong in the coming years. We fully support the development of a low-carbon economy and will provide our professional insights on the options for decarbonising our energy supply while maintaining the world-class reliability Hong Kong depends upon.

Electricity Business in the Mainland China

Financial and Operational Performance

Overview

Electricity demand remained strong in Mainland China in 2018, growing 8.5% from 2017. At the same time, the country moved forward with its transformation to a low-carbon economy. With our diversified generating portfolio and a focus on nuclear and renewable energy projects, CLP was able to participate in the growth opportunities in the energy sector.

Our operating earnings rose 74.7% to HK$2,163 million over the course of the year. Earnings from our nuclear projects, the biggest contributor to the total, saw an increase of 88.4%. This was achieved through a full-year earnings contribution from Yangjiang Nuclear Power Station and the commissioning of a new generating unit at the plant.

Our performance in Mainland China is summarised below:

Operating Earnings	**2018 HK$M**	2017 HK$M	Change %
Nuclear	**1,720**	913	+88.4
Renewables	**530**	441	+20.2
Thermal	**36**	45	-20.0
Operating and Development Expenditure	**(123)**	(161)	-23.6
Total	**2,163**	1,238	+74.7

Nuclear Projects

The operations of our two nuclear projects in Guangdong Province were excellent with both plants maintaining good safety performances and achieving record outputs.

In July, the fifth generating unit at Yangjiang Nuclear was commissioned ahead of schedule. Construction of the sixth and final unit is progressing well and it is expected to go into operation in the second half of 2019. Meanwhile, the Daya Bay plant achieved a utilisation rate of 95%.

Renewable Projects

Our renewable energy portfolio achieved another year of strong growth in 2018, largely due to the better performance of our wind and solar projects on the back of more natural resources and supportive Government policies, reducing grid curtailments. The Government plans to establish renewable portfolio standard (RPS) in 2019 and set renewable consumption targets for each province. It slowed down new approvals to curb excess capacity growth. In addition, we benefitted from an expanded high-voltage transmission system that allows cross-regional power supply from regions where most wind and solar projects are located to high-consumption coastal areas.

During the year, we continued to add new renewable energy generation capacity by acquiring the remaining 49% share in the Jinchang solar plant in Gansu Province from our partner in May and commencing commercial operation of the Lingyuan solar plant in Liaoning Province in July. In Shandong Province, we completed construction of the CLP Laizhou II wind plant in November to prepare for its connection to the grid, and we committed to the construction of the Laiwu III wind project.

As a result of lower grid curtailments in Gansu and north-eastern provinces, more natural resources, and contributions from new projects, the output of our solar and wind projects increased 20% and 12% respectively in 2018. Meanwhile, generation of our hydro projects remained steady.

Thermal Projects

Despite the pressures of high coal costs and coal import restrictions at certain ports, Fangchenggang Power Station reported a solid performance in 2018. This was mainly because of higher production in response to strong demand powered by Guangxi's economic growth, and reduced competition from hydro plants.

The Fangchenggang project also made strong efforts to secure guaranteed generation hours by deepening cooperation with the Fangchenggang City Government, as we reposition the plant to be an integrated energy provider. As part of a strategic cooperative framework agreement CLP signed with the Government in July, we support Guangxi's policy to promote a circular economy through buying white clay, a by-product from a nearby paper mill, to replace some of the limestone used in our flue gas desulphurisation facility. Our project also supplies steam and carbon dioxide to a neighbouring high-technology factory that grows microalgae for use in its products. These ecological initiatives have been recognised by the Government, which in turn has granted us higher minimum loading.

Contributions by our minority-owned coal-fired projects were very modest, reflecting the impact of an unfavourable combination of lower utilisation, lower tariffs and high coal prices.

Innovation

In line with the Group's strategy to transform into a "Utility of the Future", resources have been dedicated to expand our innovation capability. One of our focus locations is the Greater Bay Area in southern China, which aspires to become a globally leading innovation and technology centre.

In July, we formed a joint venture with a subsidiary of TUS-Holdings Co., Ltd., a company affiliated to China's prestigious Tsinghua University, to develop and deploy new energy and smart city technologies amid growing demand for digitalised energy infrastructure and services in Mainland China, particularly in the Greater Bay Area. One area of opportunity being pursued is integrated energy systems for industrial parks on the Mainland as park owners switch to systems that combine the supply to customers of electricity, heating and air-conditioning services.

In addition, the CLP-TUS joint venture, together with the Guangxi subsidiary of China Southern Power Grid Co., Ltd. and a unit of the local government, was selected as the successful bidder to invest in and operate the Fangchenggang High-tech Zone incremental distribution network project. Under a 30-year franchise agreement, we will provide integrated energy solutions including electricity distribution and other value-added smart energy services for customers in the park. This investment fits our strategy to take advantage of the opportunities offered by digitalisation and market reform, and gives us an entry point into the energy distribution and retail business in South China.

Environmental Performance

Air Emissions

Following the completion of the Fangchenggang emission control retrofit project in 2018, the plant now meets the Government's stringent new energy saving and air emissions requirements. Despite an increase of nearly 80% in output compared with 2017, total air emissions at Fangchenggang were lower than a year earlier. This is a testament to the effectiveness of the retrofit.

Water

At Fangchenggang, a water recycling system has been installed to collect used water from the coal yard. The water is used for damping down the dust from coal piles and general cleaning after sewage treatment.

Environmental Regulatory Compliance

All China assets under our operational control maintained full compliance with environmental regulations in 2018.

Outlook

Mainland China is one of CLP's key growth markets. Looking forward, our focus will continue to be the expansion of our low-carbon portfolio. The recent announcement of air quality targets confirms the Central Government's commitment to shift its energy mix towards cleaner sources. The Government has also set three-year targets for allowing more renewable energy onto the grid. These new policies provide a supportive environment for us to expand our renewable energy portfolio.

We will continue to pursue new projects in a disciplined and selective manner. With the planned commissioning of the whole of the Yangjiang plant by 2019, we expect low-carbon projects to remain the key drivers for our business in Mainland China.

At the same time, we will continue our efforts to increase utilisation of the Fangchenggang plant. In late 2019, a centralised heat supply system in the Economic Development Zone of Fangchenggang is expected to start. We expect this to help us secure a better dispatch order and higher minimum loading. These assurances will help the plant achieve higher utilisation, especially during the wet season when there is more hydro output.

As our innovation initiatives in Hong Kong and Australia begin to reap results, we hope to apply the experiences to Mainland China, particularly in the Greater Bay Area. We will seek to explore further partnerships in independent decentralised generation and distribution to deliver more technology-enabled energy solutions to our business partners and customers.

Electricity Business in India

Financial and Operational Performance

Overview

2018 was a significant year for CLP India. We introduced CDPQ as our strategic shareholder to focus on jointly expanding our green energy investment at a time when energy demand continues to be strong, growing 6% year-on-year. Operationally, the business continued to report a stable performance.

While operating earnings decreased 11.6% to HK$572 million, earnings from our renewable energy portfolio grew, helped by higher output. Although load factor and sent-out of Jhajjar Power Station set new records, demonstrating its importance to the system, the plant reported lower earnings largely because of coal supply issues. Its financial performance was also affected by higher operation and maintenance (O&M) costs and the absence of one-off items that benefitted 2017's results.

Our performance in India is summarised below:

Operating Earnings	**2018 HK$M**	2017 HK$M	Change %
Renewables	**244**	110	+121.8
Thermal	**328**	537	-38.9
Total	**572**	647	-11.6

Renewable Projects

We continued to expand our renewable energy portfolio throughout the year. In February, our first solar project at Veltoor, Telangana state, was commissioned and the plant has been operating steadily since. The farm was awarded the world's first solar project quality certification from DNV GL, a global quality assurance and risk management company, in recognition of its high standards of safety and technical compliance. Veltoor is one of the CLP Group's most advanced solar assets, deploying best-in-class tracking technologies that are capable of following the sun's path through the day to maximise efficiency.

We also added two new solar projects to our portfolio after acquiring the Tornado project and a 49% stake in the Gale project from our long-term partner Suzlon. Both plants are fully operational and located in Dhule, Maharashtra state. Following the takeover, CLP India's health, safety, security and environment (HSSE) and O&M systems are being implemented. CLP has an option to acquire the remaining 51% stake in the Gale project in future.

Our wind farms reported the highest-ever output on a combined basis as improved availability of our machines allowed us to capitalise on higher wind resources.

To gain better operational control of our assets, we took over O&M responsibility for the Khandke wind project in the state of Maharashtra from our current partner. The move allowed us to ensure that the operation is in line with CLP's safety and operational standards and is expected to yield higher generation and revenues in the long run.

Thermal Projects

The Jhajjar plant maintained high utilisation in 2018 after most of the technical issues affecting its performance over the last few years were resolved. With a low cost basis and high efficiency, we were able to deliver a high dispatch. However, our performance was constrained by an industry-wide issue of limited coal supply. Although coal delivery to Jhajjar reached a record high, we still didn't have enough coal to meet all the demand from our customers. As a result, commercial availability did not reach the 80% requirement to allow the plant to fully recover all capacity charges.

Our Paguthan plant also performed well. Since its power purchase agreement (PPA) ended in December, we continue to explore long-term alternatives for this excellent asset but acknowledge that our options could be limited given the current gas shortages. We also made a provision against the amount withheld by our previous customer Gujarat Urja Vikas Nigam Limited regarding an ongoing deemed generation dispute, due to the expiry of the PPA and uncertainty over the timing of recoverability.

Environmental Performance

Air Emissions

Emissions of all major pollutants including particulate matter (PM), sulphur dioxide (SO_2) and nitrogen oxides (NOx) at Jhajjar were lower in 2018 compared with the previous year. PM emissions decreased from 0.24kg/MWh in 2017 to 0.14kg/MWh in 2018 because of improved operations, the replacement of fabric filters and the flue-gas desulphurisation (FGD) units that started trial operation in the second half of 2018 to meet India's new compliance requirements with effect from 31 January 2019. We also reduced NOx emission from 1.27kg/MWh in 2017 to 0.81kg/MWh in 2018 due to combustion optimisation. In addition, the FGD units brought the level of SO_2 down from 4.71kg/MWh in 2017 to 2.63kg/MWh in 2018.

Water

We launched a number of initiatives to improve water reuse at Jhajjar, resulting in an increase in the cooling water cycle of concentration (COC) from 5.57 in 2017 to 6.05 in 2018, despite additional water being required for the FGD in the second half of the year. The plant's water consumption was 2.14m^3/MWh in 2018 with the FGD in operation, compared with 2.11m^3/MWh in 2017 before the FGD was operational and the statutory limit of water use is 3.5m^3/MWh.

Environmental Regulatory Compliance

We reported two environmental non-compliance incidents at Jhajjar over the course of the year:

In January 2018, due to power interruption to impacting coal feed into boiler, oil firing was initiated and fabric filter was bypassed. This resulted in PM exceedance for three hours, with average PM value reaching 463.16mg/Nm^3 against a limit of 50mg/Nm^3. For the full year, the plant's average PM value was 26.16mg/Nm^3.

In November 2018, the National Green Tribunal (NGT) passed an order directing all thermal power stations which had failed to dispose of all fly ash to pay a penalty, and in January 2019 the Haryana State Pollution Control Board requested that Jhajjar pay Rs 50 million. However, we are of the view that Jhajjar is compliant with the requirements and have sought guidance from the Central Pollution Control Board on the interpretation. Jhajjar collaborated with the Association of Power Producers and filed a petition before the Supreme Court, pursuant to which the Supreme Court has stayed the NGT order and directed the thermal power stations to approach the NGT.

Outlook

The Indian electricity market is expected to report sustained growth in the coming years on the back of healthy economic expansion nationwide and continued efforts to achieve access to electricity for all citizens. This provides a sound foundation for CLP in one of our major growth markets.

We believe renewable energy presents the biggest growth opportunities as India has set an ambitious goal of reaching 175GW of clean energy generation by March 2022. In agreement with our new partner CDPQ, we intend to focus on growing CLP India's non-carbon generating business, particularly in renewable energy and transmission. The partnership provides strong financial resources for growth from the business's existing platform. We will be evaluating both greenfield and brownfield opportunities, and we are currently working on a number of opportunities in each of these segments. These opportunities include participating in auctions conducted by the central and state Government agencies to develop utility scale wind and solar projects. We are also exploring potential acquisition targets of wind and solar projects.

In 2019, we plan to assume control of more wind projects to optimise our operational performance.

In Jhajjar, we will continue to work with the Government to resolve the coal supply issue to improve the plant's availability.

As mentioned earlier, we will explore other longer-term commercial possibilities for Paguthan amid the challenge posed by gas shortages.

India is set to hold general elections in the second quarter of 2019. We will monitor the situation and continue to work with the Government to raise the availability of electricity for customers across India while meeting the country's clean energy objectives.

Electricity Business in Southeast Asia and Taiwan

<u>Financial and Operational Performance</u>

Overview

Ho-Ping Power Station in Taiwan saw good operational performance in 2018 after a strengthened permanent transmission tower was completed in the first quarter to replace the one damaged by a typhoon the previous year. However, the financial performance of the plant was adversely impacted by high coal prices. Sadly, a contractor employee passed away while working on a lighting fixture in August. To prevent serious injuries and fatalities in future, senior safety professionals from CLP engaged with Ho-Ping's management to enhance the plant's safety training and system.

In Thailand, the Lopburi solar project operated smoothly throughout the year, producing steady power generation and sound financial results.

In Vietnam, we continued our negotiations with authorities regarding project agreements for two legacy coal-fired projects – Vung Ang II and Vinh Tan III, while remaining fully aware of our Climate Vision 2050 commitments and the challenge to seek funding for such projects.

Our performance in Southeast Asia and Taiwan is summarised below:

Operating Earnings	**2018 HK$M**	2017 HK$M	Change %
Renewables	**69**	65	+6.2
Thermal	**131**	142	-7.7
Operating and Development Expenditure	**(38)**	(47)	-19.1
Total	**162**	160	+1.3

<u>Outlook</u>

Our key target in 2019 will be to make investment decisions with respect to our entry into Vietnam. We will meanwhile continue to enhance our existing operations in Taiwan and Thailand.

Energy Business in Australia

<u>Financial and Operational Performance</u>

Overview

While uncertainty about energy and emissions policy in Australia was not resolved in 2018, EnergyAustralia continued to play its part in contributing to a cleaner and modern energy system. We also engaged in public debate to express support for a national approach to policy to create a more investment-friendly environment.

In the absence of a clear policy, retail and wholesale markets remained volatile amid a tight supply-demand balance and intense public scrutiny of the energy sector.

Overall, operating earnings from EnergyAustralia increased 20.6% from a year earlier to HK$3,302 million, reflecting the strong operating performance of our generation portfolio in a tight market with high wholesale prices. Improved profitability from our generation assets allowed EnergyAustralia to commit around A$320 million in 2018 to measures aimed at lowering or maintaining prices for customers in the short run, and investments, acquisitions and projects to help make energy affordable and reliable over the long term.

Customer

The Australian retail market in 2018 was very competitive. Market churn was high across all the states in which EnergyAustralia operates with Government intervention and media attention stimulating heightened competition for mass-market customers and increased market transfer activity. While EnergyAustralia's churn remained below the market average, we made fewer sales and margins were put under pressure. Customer accounts decreased by 73,300 or 2.8%.

To ease pressure on customer bills, EnergyAustralia decided not to pass on around A$55 million of rising costs in parts of the energy chain. These costs paid by EnergyAustralia include higher costs from some networks, increased costs of environmental compliance schemes, the costs of a program to install smart meters, and a new payment difficulty framework.

From the beginning of 2018, we removed fees for paper bills and over-the-counter transactions. From 1 January 2019, we are providing an automatic 15% discount for concession customers on "standing offer" tariffs including pensioners, veterans, and customers with healthcare cards.

We extended our *Secure Saver* programme, which provides customers with certainty by capping their electricity and gas rates for two years. We also launched a new *No Frills* plan for those who prefer simple, every-day low rates for electricity and gas.

Go Neutral, a Government-certified carbon neutral offset programme launched in 2016, was extended to the end of 2020. To date, 206,000 customers have signed up for the scheme.

EnergyAustralia continued to apply a previously announced A$10 million additional investment in hardship support measures, including waiving energy debts for around 1,000 vulnerable customers.

Energy Production

Our generation fleet continued to support Australia's transition to a cleaner, modern energy system as renewable power and storage projects are integrated into the National Electricity Market (NEM). However, wholesale electricity prices remained relatively high in 2018 following the previous sudden closure of large coal-fired plants in Victoria and South Australia. During the year EnergyAustralia acquired additional flexible capacity, in the Newport and Jeeralang gas-fired plants, for an enterprise value of A$205 million and invested around A$144 million in maintenance and upgrades to our generation assets.

Mount Piper Power Station in New South Wales produced substantially more energy in 2018 than in the previous year on the back of greater certainty of the fuel supply. Work is progressing on a water treatment plant to support operations at Mount Piper and is expected to be completed by mid-2019.

Gas-fired power facilities in New South Wales, Victoria and South Australia maintained high reliability throughout the year, shielding customers from extreme pricing events caused by extreme weather and system constraints. The Yallourn power station in Victoria, meanwhile, produced less energy than in 2017 because of unscheduled maintenance.

Towards a Low-Carbon Future

EnergyAustralia is continuing to invest in new electricity supplies and projects to ensure reliability of the electricity system.

In 2018, we completed a programme to help financially underpin the development of 500MW of new renewable projects across eastern Australia.

With these projects progressively going into operation along with our previous commitments to renewable generation, EnergyAustralia continued PPAs with existing renewable energy operations during the year.

We also committed A$50 million to two commercial-scale battery projects in Victoria and have the rights to charge and dispatch energy from the projects into the NEM until 2030 and 2033. The two projects have a combined storage of 80MWh, giving EnergyAustralia the largest battery storage portfolio of any retailer in the NEM. The first project is already in operation.

We are now assessing potential investments to accelerate the integration of solar and wind power into the national grid by adding capacity to help mitigate the intermittency of renewable generation. These include new gas-fired power plants in New South Wales, pumped hydro projects, and the expansion of our demand response capability.

New Business

EnergyAustralia has joined an Australian Government initiative to deliver 200MW of energy reserve or “demand response” by 2020 through 10 pilot projects in New South Wales, Victoria, and South Australia. This is an innovative programme which deploys underutilised assets and involves both large commercial and industrial customers as well as residential customers curtailing demand at critical peak periods. We are managing two of the 10 projects and contributing 50MW to the programme.

In 2018 we completed the first year of our partnership with the Startupbootcamp programme, which is aimed at fast tracking new energy-related start-up businesses. The inaugural programme ended with 10 start-ups from around the world pitching their ideas to potential investors and members of the business community. EnergyAustralia has committed to be the major sponsor for the Startupbootcamp Accelerator programme for three consecutive years and is currently working closely with three start-ups from the 2018 programme to develop new products and services.

Environmental Performance

Air Emissions

Overall, emissions from our Australian power stations have remained consistent compared to 2017. Yallourn achieved a 5% decrease in emissions in 2018 due to a drop in generation. Mount Piper, meanwhile, saw a 16% increase in emissions with a 19% rise in energy output. Emissions at each of our gas-fired generators decreased following lower generation in 2018.

Environmental Regulatory Compliance

EnergyAustralia was not subject to any fines or prosecutions arising from environmental-related regulatory non-compliances in 2018. In July, Yallourn exceeded its carbon monoxide emission limits for three brief periods. We assessed there was no harm to the environment and the Environment Protection Agency in Victoria was notified. Corrective action has been taken to prevent a repeat of this incident.

Outlook

In the absence of a durable and sustainable energy policy, market conditions are expected to remain tight. Operationally, our focus will remain on optimising our generation portfolio, enhancing asset reliability and exploring the integration of flexible capacity options, including pumped hydro and gas-fired generation.

We expect competition in the retail market to remain intense. Against this background, we will continue our focus on improving customer experience and easing pressure on household budgets.

It will remain our priority to work with Federal and State Governments and advocate for a clear and stable national energy policy. This will provide the confidence for the investment required to transition Australia to a more reliable, affordable and sustainable energy system. We are committed to contributing to those investments to safeguard the reliability and affordability of power supply in Australia as the country moves towards a low-carbon future.

Safety

We remain committed to ensure the highest standards of safety at every level of our operations and to continually improve our safety performance to look after our people. However, tragically we had two fatal incidents resulting in the deaths of one employee and one contractor in Australia in 2018.

We have conducted thorough investigations into the fatal incidents and all other incidents over the course of the year with the potential to cause serious injuries. An internal panel has looked into their root causes and reviewed our safety standards and procedures in order to guide future Health, Safety, Security and Environmental (HSSE) policies. While our injury rates have declined by more than a third in the past four years, the number of fatal incidents has plateaued and we are focusing our strategy on reducing the potential for harm and eliminating risks wherever possible. We are also committed to understand how behaviour affects our safety performance and will continue to support behavioural-safety observation programmes.

We regularly review how each of our assets and regions addresses safety risks. We continue to implement comparable standards across the Group for our risk framework, which includes identifying generic environmental risks. Quarterly HSSE risk reviews are conducted to provide detailed information for the Group HSSE Committee.

We established a Group-wide HSE Improvement Strategy in 2018 under which each region has developed its own action plan. We are committed to work towards a goal of zero harm to all employees, contractors, and the public in all our activities and operations. Our HSE Improvement Strategy is based around five pillars, each of which emphasises a key fundamental principle of effective HSE management. The critical theme across all pillars is a focus to reduce the number of serious incidents. The strategy will be implemented over a three-year period.

We benchmark our safety performance by measuring our Lost Time Injury Rate (LTIR) and Total Recordable Injury Rate (TRIR). They refer to the number of lost time injuries or recordable injuries measured over 200,000 working hours, which is equivalent to around 100 persons working for one year. Our injury rates saw a slight reduction in 2018.

Human Resources

At the end of 2018, the Group employed 7,634 people compared with 7,542 in 2017. A total of 4,264 were employed in the Hong Kong electricity and related businesses and 3,033 by our businesses in Mainland China, India, Southeast Asia, Taiwan and Australia, with the remaining 337 employed by CLP Holdings. Total remuneration for the year ended 31 December 2018 was HK$5,935 million compared with HK$5,573 million in 2017, including retirement benefit costs of HK$584 million compared with HK$561 million in 2017.

FINANCIAL INFORMATION

The financial information has been reviewed by the Audit & Risk Committee, approved by the Board and agreed by the Group's external auditor, PricewaterhouseCoopers, to the amounts set out in the audited financial statements.

Consolidated Statement of Profit or Loss
for the year ended 31 December 2018

	Note	**2018 HK$M**	2017 HK$M
Revenue	*3*	**91,425**	92,073
Expenses			
Purchases of electricity, gas and distribution services		**(34,214)**	(38,121)
Staff expenses		**(4,449)**	(4,195)
Fuel and other operating expenses		**(26,595)**	(23,691)
Depreciation and amortisation		**(8,005)**	(7,368)
		(73,263)	(73,375)
Operating profit	*5*	**18,162**	18,698
Finance costs		**(2,049)**	(2,180)
Finance income		**192**	151
Share of results, net of income tax			
Joint ventures		**518**	508
Associates		**1,818**	950
Profit before income tax		**18,641**	18,127
Income tax expense	*6*	**(4,014)**	(2,780)
Profit for the year		**14,627**	15,347
Earnings attributable to:			
Shareholders		**13,550**	14,249
Perpetual capital securities holders		**250**	249
Other non-controlling interests		**827**	849
		14,627	15,347
Earnings per share, basic and diluted	*8*	**HK$5.36**	HK$5.64

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018

	2018	2017
	HK$M	HK$M
Profit for the year	**14,627**	15,347
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	**(5,177)**	4,329
Cash flow hedges	**(284)**	(300)
Costs of hedging	**29**	(157)
Share of other comprehensive income of joint ventures	**1**	-
	(5,431)	3,872
Items that cannot be reclassified to profit or loss		
Fair value changes on equity investments	**(37)**	(280)
Remeasurement (losses)/gains on defined benefit plans	**(8)**	91
Share of other comprehensive income of an associate	**4**	-
	(41)	(189)
Other comprehensive income for the year, net of tax	**(5,472)**	3,683
Total comprehensive income for the year	**9,155**	19,030
Total comprehensive income attributable to:		
Shareholders	**8,035**	17,914
Perpetual capital securities holders	**250**	249
Other non-controlling interests	**870**	867
	9,155	19,030

Consolidated Statement of Financial Position
as at 31 December 2018

	Note	**2018 HK$M**	2017 HK$M
Non-current assets			
Fixed assets	*9*	**141,309**	137,207
Leasehold land and land use rights under operating leases	*9*	**5,432**	5,345
Investment property	*9*	**1,204**	1,186
Goodwill and other intangible assets		**26,910**	29,087
Interests in and loans to joint ventures		**9,674**	10,383
Interests in associates		**7,746**	8,081
Finance lease receivables	*9(b)*	**-**	620
Deferred tax assets		**835**	929
Derivative financial instruments		**1,000**	956
Equity investments		**300**	349
Other non-current assets		**604**	298
		195,014	194,441
Current assets			
Inventories – stores and fuel		**2,840**	3,050
Renewable energy certificates		**847**	1,047
Property under development		**2,971**	2,971
Trade and other receivables	*10*	**15,917**	15,427
Finance lease receivables		**-**	148
Derivative financial instruments		**799**	1,137
Short-term deposits and restricted cash		**4,761**	3,401
Cash and cash equivalents		**7,365**	6,529
		35,500	33,710
Current liabilities			
Customers' deposits		**(5,476)**	(5,221)
Fuel clause account		**(901)**	(2,212)
Trade and other payables	*11*	**(19,061)**	(18,978)
Income tax payable		**(1,399)**	(762)
Bank loans and other borrowings		**(13,535)**	(8,472)
Derivative financial instruments		**(1,262)**	(789)
		(41,634)	(36,434)
Net current liabilities		**(6,134)**	(2,724)
Total assets less current liabilities		**188,880**	191,717

Consolidated Statement of Financial Position (continued)
as at 31 December 2018

	Note	2018 HK$M	2017 HK$M
Financed by:			
Equity			
Share capital		**23,243**	23,243
Reserves	*13*	**85,810**	85,454
Shareholders' funds		**109,053**	108,697
Perpetual capital securities		**5,791**	5,791
Other non-controlling interests		**10,088**	7,019
		124,932	121,507
Non-current liabilities			
Bank loans and other borrowings		**41,763**	48,869
Deferred tax liabilities		**14,650**	14,275
Derivative financial instruments		**1,547**	1,640
Scheme of Control (SoC) reserve accounts	*12*	**998**	977
Asset decommissioning liabilities and retirement obligations		**3,558**	2,987
Other non-current liabilities		**1,432**	1,462
		63,948	70,210
Equity and non-current liabilities		**188,880**	191,717

1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong. The principal activity of the Company is investment holding, and the principal activities of the subsidiaries are generation and supply of electricity in Hong Kong, Mainland China, India and Australia, and investment holding of power projects in Mainland China, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiaries, CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO) (collectively referred as SoC Companies), are governed by a SoC entered into with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The SoC Agreement which took effect from 1 October 2008 expired on 30 September 2018. A new SoC Agreement immediately became effective on 1 October 2018.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

The financial information relating to the year ended 31 December 2018 included in this preliminary announcement of annual results 2018 does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company will deliver the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance in due course.

The Company's auditor has reported on the financial statements of the Group for the year ended 31 December 2018. The auditor's report is unqualified; does not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and does not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. Changes in Accounting Policies

The following new standard, interpretation, amendments and improvements to standards, which are relevant to the Group, are first effective from 1 January 2018.

- Annual Improvements to HKFRSs 2014-2016 Cycle
- Amendments to HKAS 40 Transfers of Investment Property
- HK(IFRIC)-Int 22 Foreign Currency Transactions and Advance Consideration
- HKFRS 15 Revenue from Contracts with Customers

2. Changes in Accounting Policies (continued)

Except for HKFRS 15, the adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group.

The Group first time adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions of HKFRS 15, the Group has adopted the modified retrospective application, under which the cumulative effect of the initial application is adjusted to retained profits on 1 January 2018 and no comparative figures were restated.

HKFRS 15 establishes a new framework for revenue recognition. This replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard introduces a five-step model to determine when to recognise revenue and at what amount. Under the five-step model, revenue is recognised when control of goods or services is transferred to a customer and at the amount to which the entity expects to be entitled. Depending on the nature of the contracts, revenue is either recognised over time or at a point in time. The new standard also sets out new capitalisation criteria for contract acquisition costs which are incremental and the entity is expected to recover them.

Considering the nature of the Group's principal activities (i.e. generation and supply of electricity and sales of gas), the adoption of HKFRS 15 does not have material impact on the Group's revenue recognition. The key impact to the Group is on the accounting for costs to obtain a contract with a customer.

Costs of HK$247 million related to commissions paid to third parties for obtaining contracts with residential customers in Australia previously expensed were qualified for capitalisation as an asset under HKFRS 15 at 1 January 2018. The capitalised costs are amortised on a straight line basis over the expected benefit periods of the contracts and consistent with the recognition pattern of the associated revenue. The table below summarises the impact on the adoption of HKFRS 15:

	At 1 January 2018 HK$M
Increase in other non-current assets	247
Decrease in deferred tax assets	(74)
Increase in retained profits	173

	For the year ended 31 December 2018 HK$M
Increase in fuel and other operating expenses*	(6)
Decrease in income tax expense	2
Decrease in earnings attributable to shareholders	(4)

* Increase in amortisation offset by capitalisation of commissions paid

3. Revenue

The Group's revenue primarily represents sales of electricity and gas, which is recognised over time, and is disaggregated as follows:

	2018 HK$M	2017 HK$M
Revenue from contracts with customers		
Sales of electricity in Hong Kong	**40,982**	39,161
Transfer for SoC (from)/to revenue (note)	**(322)**	98
SoC sales of electricity	**40,660**	39,259
Sales of electricity outside Hong Kong	**39,121**	39,532
Sales of gas in Australia	**6,146**	8,251
Others	**1,132**	899
	87,059	87,941
Other revenue		
Operating lease income under Power Purchase Agreement (PPA)	**3,495**	3,142
Lease service income under PPA	**471**	487
Finance lease income under PPA	**100**	114
Others	**300**	389
	4,366	4,132
	91,425	92,073

Note: Under the SoC Agreements, if the gross tariff revenue in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as a revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss.

4. Segment Information

The Group operates, through its subsidiaries, joint ventures and associates, in five major geographical regions – Hong Kong, Mainland China, India, Southeast Asia and Taiwan, and Australia. The operating segments are based on geographical regions and substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

4. Segment Information (continued)

Information about the Group's operations by geographical region is as follows:

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2018							
Revenue from contracts with customers	41,487	1,441	1,146	16	42,969	-	87,059
Other revenue	136	54	4,123	-	44	9	4,366
Revenue	41,623	1,495	5,269	16	43,013	9	91,425
EBITDAF*	17,580	1,346	1,543	(9)	6,596	(821)	26,235
Share of results, net of income tax							
Joint ventures	(21)	354	-	170	15	-	518
Associates	-	1,863	-	-	(45)	-	1,818
Consolidated EBITDAF	17,559	3,563	1,543	161	6,566	(821)	28,571
Depreciation and amortisation	(4,985)	(696)	(608)	-	(1,681)	(35)	(8,005)
Fair value adjustments	(18)	-	-	-	(50)	-	(68)
Finance costs	(1,011)	(269)	(582)	-	(97)	(90)	(2,049)
Finance income	-	34	48	1	73	36	192
Profit/(loss) before income tax	11,545	2,632	401	162	4,811	(910)	18,641
Income tax expense	(1,971)	(267)	(267)	-	(1,509)	-	(4,014)
Profit/(loss) for the year	9,574	2,365	134	162	3,302	(910)	14,627
Earnings attributable to							
Perpetual capital securities holders	(250)	-	-	-	-	-	(250)
Other non-controlling interests	(805)	(10)	(12)	-	-	-	(827)
Earnings/(loss) attributable to shareholders	8,519	2,355	122	162	3,302	(910)	13,550
Excluding: Items affecting comparability	(18)	-	450	-	-	-	432
Operating earnings	8,501	2,355	572	162	3,302	(910)	13,982
Capital additions	8,872	525	48	-	2,221	32	11,698
Impairment provisions							
Fixed assets	-	13	-	-	1	-	14
Receivables and others	3	-	496	-	399	-	898
At 31 December 2018							
Fixed assets, leasehold land and land use rights and investment property	115,631	8,997	11,287	-	11,922	108	147,945
Goodwill and other intangible assets	5,545	4,453	27	-	16,885	-	26,910
Interests in and loans to joint ventures	42	7,689	-	1,866	77	-	9,674
Interests in associates	-	7,746	-	-	-	-	7,746
Deferred tax assets	-	94	130	-	611	-	835
Other assets	10,206	4,128	6,698	67	14,354	1,951	37,404
Total assets	131,424	33,107	18,142	1,933	43,849	2,059	230,514
Bank loans and other borrowings	38,636	6,080	6,182	-	-	4,400	55,298
Current and deferred tax liabilities	13,641	1,282	307	-	819	-	16,049
Other liabilities	21,088	1,494	552	18	10,643	440	34,235
Total liabilities	73,365	8,856	7,041	18	11,462	4,840	105,582

* EBITDAF stands for earnings before interest, taxes, depreciation and amortisation, and fair value adjustments. For this purpose, fair value adjustments include fair value gains or losses on derivative financial instruments relating to transactions not qualifying as hedges and ineffectiveness of cash flow hedges.

4. Segment Information (continued)

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2017							
Revenue from contracts with customers	39,795	1,276	1,064	14	45,792	-	87,941
Other revenue	170	29	3,823	-	103	7	4,132
Revenue	39,965	1,305	4,887	14	45,895	7	92,073
EBITDAF	18,053	1,212	2,110	(15)	5,416	(572)	26,204
Share of results, net of income tax							
Joint ventures	(18)	339	-	171	16	-	508
Associates	-	961	-	-	(11)	-	950
Consolidated EBITDAF	18,035	2,512	2,110	156	5,421	(572)	27,662
Depreciation and amortisation	(4,761)	(638)	(599)	-	(1,335)	(35)	(7,368)
Fair value adjustments	44	-	-	-	(182)	-	(138)
Finance costs	(1,049)	(241)	(713)	-	(140)	(37)	(2,180)
Finance income	-	39	57	4	16	35	151
Profit/(loss) before income tax	12,269	1,672	855	160	3,780	(609)	18,127
Income tax expense	(1,951)	(151)	(209)	-	(469)	-	(2,780)
Profit/(loss) for the year	10,318	1,521	646	160	3,311	(609)	15,347
Earnings attributable to							
Perpetual capital securities holders	(249)	-	-	-	-	-	(249)
Other non-controlling interests	(837)	(13)	1	-	-	-	(849)
Earnings/(loss) attributable to shareholders	9,232	1,508	647	160	3,311	(609)	14,249
Excluding: Items affecting comparability	(369)	-	-	-	(573)	-	(942)
Operating earnings	8,863	1,508	647	160	2,738	(609)	13,307
Capital additions	8,073	630	868	-	3,062	13	12,646
Impairment provisions							
Receivables and others	4	-	32	-	407	-	443
At 31 December 2017							
Fixed assets, leasehold land and land use rights and investment property	112,270	8,522	11,698	-	11,138	110	143,738
Goodwill and other intangible assets	5,545	4,698	29	-	18,815	-	29,087
Interests in and loans to joint ventures	34	8,417	-	1,848	84	-	10,383
Interests in associates	-	8,050	-	-	31	-	8,081
Deferred tax assets	-	97	67	-	765	-	929
Other assets	11,157	3,894	5,081	121	13,239	2,441	35,933
Total assets	129,006	33,678	16,875	1,969	44,072	2,551	228,151
Bank loans and other borrowings	40,361	5,573	6,785	-	234	4,388	57,341
Current and deferred tax liabilities	13,232	1,228	282	-	295	-	15,037
Other liabilities	21,145	1,526	1,002	2	10,213	378	34,266
Total liabilities	74,738	8,327	8,069	2	10,742	4,766	106,644

5. Operating Profit

Operating profit is stated after charging/(crediting) the following:

	2018 HK$M	2017 HK$M
Charging		
Retirement benefits costs [(a)]	**437**	421
Auditors' remuneration		
Audit services		
PricewaterhouseCoopers	**39**	39
Other auditor [(b)]	**2**	1
Permissible audit related and non-audit services		
PricewaterhouseCoopers [(c)]	**9**	9
Other auditor [(b)]	**-**	-
Operating lease expenditure on the agreement with Ecogen	**83**	255
Net loss on disposal of fixed assets	**416**	407
Impairment of		
Fixed assets	**14**	-
Trade receivables	**890**	440
Inventories – stores and fuel	**8**	3
Net exchange loss/(gain)	**87**	(143)
Crediting		
Net fair value (gains)/losses on non-debt related derivative financial instruments		
Reclassified from cash flow hedge reserve and costs of hedging reserves to		
Purchases of electricity, gas and distribution services	**(453)**	(144)
Fuel and other operating expenses	**(77)**	56
Transactions not qualifying as hedges	**68**	138
Rental income from investment property	**(40)**	(48)
Revaluation gains on investment properties	**(18)**	(369)
Dividends from equity investments	**(13)**	(9)

Notes:

(a) Retirement benefits costs for the year amounted to HK$584 million (2017: HK$561 million), of which HK$147 million (2017: HK$140 million) was capitalised.

(b) KPMG India has been the statutory auditor of CLP India Private Limited (CLP India) and its subsidiaries (CLP India group) since April 2017. The Group does not regard KPMG India as a principal auditor of the Group given the relative small quantum of the audit fees, which reflect the scale of operation of CLP India group. Our policy with regard to non-principal auditors for providing non-audit services is to ensure that, within country, the non-audit fees are not paid out of proportion to the audit fees so as to compromise in-country independence. The figure of audit related and non-audit services represented KPMG India's non-audit fees charged to CLP India group. Other KPMG offices have also provided services to our businesses in other regions which amounted to HK$6 million during the year (April-December 2017: HK$5 million).

(c) Permissible audit related and non-audit services provided by PricewaterhouseCoopers comprised Sustainability Report assurance, Continuing Connected Transactions limited assurance, audits of CLP's provident funds, auditor's attestation and other advisory services.

6. Income Tax Expense

Income tax in the consolidated statement of profit or loss represents the income tax of the Company and subsidiaries and is analysed below:

	2018	2017
	HK$M	HK$M
Current income tax	**3,565**	2,094
Deferred tax	**449**	686
	4,014	2,780

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

7. Dividends

	2018		2017	
	HK$ per Share	**HK$M**	HK$ per Share	HK$M
First to third interim dividends paid	**1.83**	**4,623**	1.77	4,472
Fourth interim dividend declared	**1.19**	**3,007**	1.14	2,880
	3.02	**7,630**	2.91	7,352

At the Board meeting held on 25 February 2019, the Directors declared the fourth interim dividend of HK$1.19 per share (2017: HK$1.14 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements.

8. Earnings per Share

The earnings per share are computed as follows:

	2018	2017
Earnings attributable to shareholders (HK$M)	**13,550**	14,249
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,526,451
Earnings per share (HK$)	**5.36**	5.64

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2018 (2017: nil).

9. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property

Fixed assets, leasehold land and land use rights under operating leases and investment property totalled HK$147,945 million (2017: HK$143,738 million) which included assets under construction with book value of HK$12,333 million (2017: HK$9,919 million). Movements in the accounts are as follows:

	Fixed Assets					Leasehold Land and Land Use Rights under Operating Leases	Investment Property [(a)]
	Land Freehold	Land Leased	Buildings	Plant, Machinery and Equipment	Total		
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Net book value at 1 January 2018	786	386	19,943	116,092	137,207	5,345	1,186
Acquisitions of subsidiaries	155	-	301	2,294	2,750	-	-
Additions	-	-	1,370	9,488	10,858	275	-
Revaluation gains	-	-	-	-	-	-	18
Transfer from finance lease receivables [(b)]	347	-	4	291	642	1	-
Transfers and disposals	-	(18)	(119)	(419)	(556)	-	-
Depreciation/amortisation	-	(11)	(681)	(6,184)	(6,876)	(180)	-
Impairment charge	-	-	-	(14)	(14)	-	-
Exchange differences	(85)	-	(256)	(2,361)	(2,702)	(9)	-
Net book value at 31 December 2018	**1,203**	**357**	**20,562**	**119,187**	**141,309**	**5,432**	**1,204**
Cost/valuation	1,299	495	33,923	212,951	248,668	6,704	1,204
Accumulated depreciation/ amortisation and impairment	(96)	(138)	(13,361)	(93,764)	(107,359)	(1,272)	-
Net book value at 31 December 2018	**1,203**	**357**	**20,562**	**119,187**	**141,309**	**5,432**	**1,204**

Notes:

(a) Investment property at 31 December 2018 represented the commercial interest of the retail portion of the Laguna Mall in Hong Kong.

(b) The residual value of the Paguthan Plant (Paguthan) was transferred to fixed assets upon the expiry of the PPA in December 2018.

10. Trade and Other Receivables

	2018	2017
	HK$M	HK$M
Trade receivables	**11,229**	12,228
Deposits, prepayments and other receivables	**3,547**	2,930
Dividend receivables from		
Joint ventures	**57**	68
Associates	**949**	-
Loans to and current accounts with		
Joint ventures	**134**	200
Associates	**1**	1
	15,917	15,427

The Group has established credit policies for customers in each of its retail businesses. In Hong Kong, customers are allowed to settle their electricity bills within two weeks after issue. To limit the credit risk exposure, customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. In Australia, customers are allowed to settle their electricity bills in no more than 45 days after issue. Trade receivables arising from sales of electricity to the offtakers in Mainland China and India are due for settlement within 30 to 90 days and 15 to 60 days after bills issue respectively.

The ageing analysis of the trade receivables at 31 December based on invoice date is as follows:

	2018	2017
	HK$M	HK$M
30 days or below*	**8,992**	9,465
31 – 90 days	**820**	882
Over 90 days	**1,417**	1,881
	11,229	12,228

* Including unbilled revenue

11. Trade and Other Payables

	2018	2017
	HK$M	HK$M
Trade payables	**6,653**	7,092
Other payables and accruals	**7,294**	6,991
Advances from non-controlling interests	**1,522**	1,514
Current accounts with		
Joint ventures	**1**	1
Associates	**517**	271
Deferred revenue	**3,074**	3,109
	19,061	18,978

11. Trade and Other Payables (continued)

The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2018	2017
	HK$M	HK$M
30 days or below	**6,404**	6,507
31 – 90 days	**145**	146
Over 90 days	**104**	439
	6,653	7,092

12. SoC Reserve Accounts

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Refunds of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2018	2017
	HK$M	HK$M
Tariff Stabilisation Fund	**941**	746
Rate Reduction Reserve	**11**	4
Rent and Rates Refunds (note)	**46**	227
	998	977

Note: CLP Power Hong Kong has been challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. In 2018, CLP Power Hong Kong reached a settlement with the Hong Kong Government in respect of the appeals for rating years from 2001/02 to 2007/08. For the remaining years under appeal, final resolution remains subject to the application of the Lands Tribunal judgments, which were in favour of CLP Power Hong Kong, to the rent and rates amounts for each of these years.

Refunds totalling HK$2,054 million have been paid by the Hong Kong Government since 2012. These include interim refunds paid on a without prejudice basis for the appeal years 2008/09 to 2012/13 of HK$757 million, and the refunds of HK$1,297 million for the years 2001/02 to 2007/08 which have been settled (of which HK$186 million was received in 2018).

Using the refunds received from the Hong Kong Government, CLP Power Hong Kong has provided customers with the Rent and Rates Special Rebate. Including the rebate of HK$367 million paid in 2018, the Rent and Rates Special Rebate made by CLP Power Hong Kong has reached an aggregate of HK$2,008 million.

For the remaining years under appeal, CLP Power Hong Kong maintains that it will recover no less than the interim refunds received to date for these years in the final outcome of these years.

The rent and rates refunds are classified within the SoC reserve accounts, and the Rent and Rates Special Rebate to customers was offset against these refunds received.

12. SoC Reserve Accounts (continued)

Note (continued):

	2018 HK$M	2017 HK$M
Rent and Rates Refunds Received	**2,054**	1,868
Rent and Rates Special Rebate	**(2,008)**	(1,641)
	46	227

In the event that the final amount recovered on conclusion of the remaining appeals is less than the total amount rebated to customers in respect of these years, CLP Power Hong Kong will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, if the final amount recovered for the remaining years exceeds the special rebates paid out, these additional amounts will be returned to customers.

13. Reserves

	Translation Reserves HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2018, as previously reported	(3,313)	668	(53)	2,853	85,299	85,454
Effect on adoption of HKFRS 15 (net of tax) (Note 2)	-	-	-	-	173	173
Balance at 1 January 2018, as restated	(3,313)	668	(53)	2,853	85,472	85,627
Earnings attributable to shareholders	-	-	-	-	13,550	13,550
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(4,411)	85	(15)	-	(70)	(4,411)
Joint ventures	(463)	-	-	-	-	(463)
Associates	(352)	-	-	-	-	(352)
Cash flow hedges						
Net fair value gains	-	342	-	-	-	342
Reclassification to profit or loss	-	(723)	-	-	-	(723)
Tax on the above items	-	104	-	-	-	104
Costs of hedging						
Net fair value losses	-	-	(70)	-	-	(70)
Amortisation/reclassification to profit or loss	-	-	104	-	-	104
Tax on the above items	-	-	(6)	-	-	(6)
Fair value losses on equity investments	-	-	-	(37)	-	(37)
Remeasurement losses on defined benefit plans	-	-	-	-	(8)	(8)
Share of other comprehensive income of joint ventures and an associate	-	(3)	-	4	4	5
Total comprehensive income attributable to shareholders	(5,226)	(195)	13	(33)	13,476	8,035
Transfer to fixed assets	-	(44)	(1)	-	-	(45)
Appropriation of reserves	-	-	-	134	(134)	-
Dividends paid						
2017 fourth interim	-	-	-	-	(2,880)	(2,880)
2018 first to third interim	-	-	-	-	(4,623)	(4,623)
Change in ownership interests in a subsidiary [a]	1,110	(25)	(2)	(1,387)	-	(304)
Balance at 31 December 2018	**(7,429)**	**404**	**(43)**	**1,567**	**91,311** [b]	**85,810**

13. Reserves (continued)

Notes:

(a) In September 2018, the Group entered into a conditional sales and purchase agreement with CDPQ Infrastructures Asia II Pte. Ltd to transfer 40% shareholding in CLP India for a cash consideration of Rs26.4 billion (HK$2,903 million). The transaction was completed in December and half of the consideration was received in 2018 with the remaining to be received in the first half 2019. CLP India remains as a subsidiary of the Group after the completion of the transaction. The effect of the partial disposal attributable to CLP's shareholders is summarised as follows:

	HK$M
Consideration from non-controlling interest	2,903
Less: carrying amount of non-controlling interest disposed of	(3,188)
Less: transaction costs directly attributable to the disposal	(19)
Loss on disposal debited to other reserves	(304)

(b) The fourth interim dividend declared for the year ended 31 December 2018 was HK$3,007 million (2017: HK$2,880 million). The balance of retained profits after the fourth interim dividend of the Group was HK$88,304 million (2017: HK$82,419 million).

14. Capital Commitments

(A) Capital expenditure on fixed assets and investment property, as well as intangible assets contracted for but not yet incurred at the end of the year amounted to HK$5,497 million (2017: HK$5,397 million).

(B) At 31 December 2018, equity contributions to be made for a joint venture and private equity partnerships were HK$27 million (2017: equity contribution to an associate of HK$15 million) and HK$136 million (2017: HK$64 million) respectively.

(C) At 31 December 2018, the Group's shares of capital commitments of its joint ventures and associates were HK$422 million (2017: HK$475 million) and HK$1,526 million (2017: HK$1,310 million) respectively.

15. Contingent Liabilities

(A) CLP India – Deemed Generation Incentive Payment and Interest on Deemed Loans

This is a dispute between CLP India and its offtaker Gujarat Urja Vikas Nigam Limited (GUVNL) under the PPA for Paguthan. GUVNL is required to make a "deemed generation incentive" payment to CLP India when plant availability is above a set threshold. GUVNL has been making such payments since December 1997.

15. Contingent Liabilities (continued)

(A) CLP India – Deemed Generation Incentive Payment and Interest on Deemed Loans (continued)

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the “deemed generation incentive” payment should not be paid for periods when Paguthan is declared with availability to generate on “naphtha” as fuel rather than on “gas”. GUVNL’s contention is based on a 1995 Government of India notification which disallowed “deemed generation incentive” for naphtha-based power plants. The total amount of the claim plus interest calculated up to June 2005 amounts to about Rs7,260 million (HK$813 million). CLP India’s position, amongst other arguments, is that Paguthan is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the “deemed generation incentive”.

GUVNL also claimed that CLP India has wrongly received interest on “deemed loans” under the existing PPA. GUVNL’s claim rests on two main grounds: (i) CLP India had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the “deemed loans” amounts to a further Rs830 million (HK$93 million) (2017: Rs830 million (HK$102 million)).

In February 2009, the GERC found in favour of GUVNL on the “deemed generation incentive” but held that GUVNL’s claim up to 14 September 2002 was time-barred under the Limitations Act of India. The GERC also dismissed GUVNL’s claim to recover interest on the “deemed loans”. CLP India appealed the GERC’s decision to the Appellate Tribunal for Electricity (APTEL). GUVNL also filed an appeal against the orders of the GERC which went against GUVNL. In January 2010, the APTEL upheld the decisions of the GERC. Both CLP India and GUVNL have filed further appeals in the Supreme Court of India. The appeal petitions have been admitted. Since the matter has been pending before the Supreme Court for a long period of time, an application of early hearing was filed before the court, which was allowed. The matter should be listed for hearing in the coming months.

The PPA term expired in December 2018 and GUVNL has formally declined extension of the PPA.

While CLP India has not altered its view regarding the legal merits of the claim, in view of the expiry of the PPA and uncertainty on the timing of recoverability, it is appropriate to make a provision of Rs3,796 million (HK$450 million) in the profit or loss and against the amounts withheld by GUVNL. This will not prejudice the stance CLP India has taken all along and CLP India remains committed to pursuing this case and closing it successfully. If this is eventually achieved and the monies are recovered from GUVNL, the provision would be reversed.

At 31 December 2018, the time-barred portion of the claim plus interest and tax with respect to the “deemed generation incentive” amounted to Rs4,737 million (HK$530 million). On the basis of legal advice obtained, the Directors are of the opinion that CLP India has a strong case on appeal to the Supreme Court. In consequence, no provision has been made in the financial statements at this stage in respect of the time-barred portion of the claim plus interest and tax.

15. Contingent Liabilities (continued)

(B) Indian Wind Power Projects – WWIL's Contracts

CLP India group has invested in approximately 533MW of wind power projects developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2018, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

(C) JPL – Disputed Charges with Offtakers

Jhajjar Power Limited (JPL) has disputes with its offtakers over applicable tariff of capacity charges and energy charges relating to transit loss. Total disputed amounts were Rs2,719 million (HK$305 million) at 31 December 2018 (2017: Rs2,117 million (HK$259 million)). The Group considers that JPL has a strong case and hence, no provision has been made.

JPL filed a petition to Central Electricity Regulatory Commission (CERC) against its offtakers in September 2013. On 25 January 2016, CERC pronounced its judgment in favour of JPL, which supports the Group's decision that no provision should be made. JPL and its offtakers have filed appeals to APTEL.

(D) EnergyAustralia – Disposal of Iona Gas Plant

In December 2015, EnergyAustralia Holdings Limited (EnergyAustralia) completed the disposal of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million). On 19 May 2017, EnergyAustralia received a Statement of Claim issued by Lochard Energy (Iona Operations Holding) Pty Ltd, the purchaser of the Iona Gas Plant, and certain related entities, commencing formal legal proceedings seeking A$967 million (approximately HK$5,335 million) or alternatively A$780 million (approximately HK$4,303 million) in damages. The claims allege that certain information regarding the technical performance of the Iona Gas Plant, and on which the consortium claims to have relied to make its offer, were incomplete or misleading. EnergyAustralia has rejected the claims and is vigorously defending the legal proceedings. On the basis of currently available information, the Directors' view is that a material outflow of economic benefits is unlikely and no provision has been made in the financial statements.

SUPPLEMENTARY INFORMATION ON TREASURY ACTIVITIES

In 2018, the Group achieved a number of new financing arrangements to support the growth in our key markets. CLP Group maintained strong liquidity with undrawn bank facilities of HK$24 billion and bank balances of HK$12.1 billion as at the end of December 2018 to meet business growth and contingencies. In May and June 2018, CLP Holdings completed HK$2.5 billion refinancing through arrangement of new bank loan facilities with three banks at preferential interest rates.

In 2018, CLP Power Hong Kong arranged (i) a HK$1 billion 15-year fixed rate private placement bond; and (ii) a RMB800 million (swapped back to HK$1 billion) offshore bank loan at all-in interest rate below Hong Kong Interbank Offered Rate to refinance other existing debt of higher costs. In addition, CLP Power Hong Kong and CAPCO arranged a total of HK$2.7 billion two to five-year bank loan facilities at attractive interest rates. Both companies have Medium Term Note Programmes in place under which bonds in aggregate amounts of up to US$4.5 billion and US$2 billion may be issued respectively. As at 31 December 2018, notes with an aggregate nominal value of about HK$26.5 billion and HK$3.9 billion had been issued by the two entities respectively.

Our strong track record in financial management is held in high regard in the industry. In May 2018, the arrangement of CAPCO's HK$5.7 billion term loan facilities was recognised as the Hong Kong Power Deal of the Year at the Asset Triple A Asia Infrastructure Awards 2018 organised by The Asset magazine. This self-arranged loan comprised the HK$1.4 billion, 15-year export credit facility arranged in March 2017 and the HK$4.3 billion, five-year commercial loan facility arranged in January 2017, for funding of the new CCGT at Black Point Power Station.

Our projects and subsidiaries beyond Hong Kong have maintained healthy liquidity positions. EnergyAustralia re-arranged a A$500 million (HK$2.9 billion) syndicated guarantee facility in March 2018 at more favourable costs. With stronger operating cash flow and more surplus funds, EnergyAustralia repaid US$30 million (HK$235 million) private placement bond earlier than scheduled to reduce finance costs. EnergyAustralia also extended the maturity date of an existing A$300 million (HK$1.7 billion) working capital facility by three years to June 2021.

CLP India arranged US$19.5 million (HK$153 million) and Rs7.1 billion (HK$795 million) bank loan facilities of between one to 18 years in tenor to refinance the existing debt of renewable projects. The US dollar loan proceeds were swapped back to Indian Rupees to mitigate foreign exchange rate risk.

CLP China arranged RMB450 million (HK$512 million) 14 and 15-year project loan facilities for two renewable energy projects and a RMB300 million (HK$342 million) offshore RMB bank loan.

As at 31 December 2018, the Group maintained HK$79.3 billion in financing facilities, including HK$16.7 billion for subsidiaries in Mainland China and India. Of the facilities available, HK$55.3 billion had been drawn down, of which HK$12.3 billion related to subsidiaries in Mainland China and India. The Group's net debt to total capital ratio was 25.5% (2017: 27.8%) and fixed-rate debt as a proportion of total debt was 53% (2017: 52%) excluding perpetual capital securities or 57% (2017: 56%) including perpetual capital securities. EBIT (Earnings Before Interest and Taxes) Interest Cover and FFO (Funds From Operations) Interest Cover for the year ended 31 December 2018 were 10 (2017: 11) and 13 (2017: 15) times respectively.

In May 2018, both Standard & Poor's (S&P) and Moody's affirmed their credit ratings for CLP Holdings (A and A2) and CLP Power Hong Kong (A+ and A1) with stable outlooks. S&P expected CLP Holdings will steadily grow its cash flow and reduce leverage owing to increased contributions from Australia and our new investment in Yangjiang Nuclear Power Station. It also considered the lower permitted rate of return under the new SoC Agreement should have a moderate impact on CLP Holdings' financial performance. Moody's, meanwhile, opined the credit ratings reflected CLP Power Hong Kong's large earnings contribution and predictable cash flow, CLP Group's strong financial profile, well-managed debt maturities and sound liquidity profile, adding that the financial impact arising from the new SoC Agreement should be manageable.

In June 2018, S&P and Moody's affirmed CAPCO's AA- and A1 credit ratings respectively with stable outlooks. S&P opined CAPCO's operations in a strong and transparent regulatory environment, underpinning its ability to earn stable and predictable cash flow, while Moody's factored in CAPCO's predictable cash flow and low-risk business profile.

In August 2018, S&P affirmed EnergyAustralia's BBB+ credit rating with stable outlook. The credit rating reflects S&P's views that EnergyAustralia's long-term fuel supply at the Mount Piper power station is fully secured, and its enhanced operational stability and stable plant performance whilst maintaining its position as one of the three largest integrated energy retailers in Australia.

As at 31 December 2018, the Group had gross outstanding derivative financial instruments amounted to HK$103.4 billion. The fair value of these derivative instruments was a net deficit of HK$1.0 billion, representing the net amount payable if these contracts were closed out on 31 December 2018.

CORPORATE GOVERNANCE

The "CLP Code on Corporate Governance" (CLP Code) is our own unique code on corporate governance (available on our website or from the Company Secretary on request). The CLP Code incorporates and goes beyond the principles of good corporate governance, and the two levels of recommendations (Code Provisions and Recommended Best Practices) in The Corporate Governance Code and Corporate Governance Report (the Stock Exchange Code), Appendix 14 of the Rules Governing the Listing of Securities (the Listing Rules) issued by The Stock Exchange of Hong Kong Limited (Hong Kong Stock Exchange).

CLP deviates from only one Recommended Best Practice in the Stock Exchange Code – that an issuer should announce and publish quarterly financial results. While CLP does issue quarterly statements which set out key financial and business information such as electricity sales, dividends and progress in major activities, we do not issue quarterly financial results. We have taken this considered approach as we are of the view that quarterly financial reporting does not bring significant benefits to our shareholders, and it encourages a short-term view of our business performance and activities which would not be consistent with the longer term nature of our activities and investments.

Throughout the year, the Company has met the Code Provisions and Recommended Best Practices, other than the exception explained above, as provided in the Stock Exchange Code.

The accounting principles and practices adopted by the Group, and the Financial Statements for the year ended 31 December 2018, have been reviewed by the Audit & Risk Committee.

During 2018, the Audit & Risk Committee monitored and reviewed management's periodic internal control review updates and the Group's quarterly risk management reports, these were greatly assisted by the Group Internal Audit and by the external auditor's report of their testing of the control environment of the Group. During the period from 1 January 2018 to the date of this announcement, no material internal control issues were identified.

The Audit & Risk Committee also received and considered reports from the Senior Director – Group Internal Audit. Group Internal Audit issues two types of reports. Opinion audit reports provide independent appraisal of the audit unit's compliance with prescribed policies and procedures, and evaluation of the effectiveness of the overall controls. Special review reports focus on new business areas and emerging risks, where control advisory is provided. In 2018, Group Internal Audit issued a total of 29 opinion audit and 10 special review reports. Two of the opinion audit reports carried an unsatisfactory audit opinion including one on a business unit's low maturity of controls over energy services, and another on a business unit's lack of management oversight over contractors' compliance on permit-to-work procedures. None of the issues identified had a material impact on the financial statements.

The Audit & Risk Committee was satisfied that the Group's risk management and internal control systems were effective for the year ended 31 December 2018 and that these continue to be effective and adequate as at the date of this announcement.

CLP's own Code for Securities Transactions (CLP Securities Code) is largely based on the Model Code set out in Appendix 10 of the Listing Rules and is on terms no less exacting than those in the Model Code. All Directors have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2018 they have complied with the required standard set out in the Model Code and CLP Securities Code.

We appreciate that some of our staff may in their day-to-day work have access to potentially inside information. As such, our Senior Management and selected members of staff, "Specified Individuals", are subject to securities dealing restrictions in the CLP Securities Code.

All members of the Senior Management have confirmed, following specific enquiry by the Company, that throughout the year ended 31 December 2018 they have complied with the required standard set out in the Model Code and CLP Securities Code.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 31 December 2018.

FOURTH INTERIM DIVIDEND

Today, the Board of Directors of the Company declared the fourth interim dividend for 2018 at HK$1.19 per share (2017: HK$1.14 per share). This fourth interim dividend will be payable on all shares in issue as at the close of business on 11 March 2019 after deducting any shares repurchased and cancelled up to the close of business on 11 March 2019. As at 31 December 2018, 2,526,450,570 shares of the Company were in issue. The fourth interim dividend of HK$1.19 per share will be payable on 21 March 2019 to shareholders registered as at 12 March 2019.

The Register of Shareholders will be closed on 12 March 2019. To rank for the fourth interim dividend, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 11 March 2019.

ANNUAL GENERAL MEETING

The twenty first Annual General Meeting (AGM) will be held at the Grand Ballroom, Level 2, Kerry Hotel, Hong Kong, 38 Hung Luen Road, Hung Hom Bay, Kowloon, Hong Kong on Monday, 6 May 2019, at 11:00 a.m. The Notice of AGM will be published on the websites of the Company and the Hong Kong Stock Exchange and despatched to shareholders on or about 27 March 2019.

To facilitate the processing of proxy voting, the Register of Shareholders will be closed from 30 April 2019 to 6 May 2019, both days inclusive, during which period the registration of transfers of shares will be suspended. To be entitled to attend and vote at the AGM, all transfers should be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 29 April 2019.

By Order of the Board
David Simmonds
Company Secretary

Hong Kong, 25 February 2019

The Company's Annual Report containing the Directors' Report and Financial Statements for the year ended 31 December 2018 will be published on the Company's website at www.clpgroup.com and the website of the Hong Kong Stock Exchange on or about 11 March 2019. The Annual Report and the Notice of AGM will be despatched to shareholders on or about 27 March 2019. All of these will be made available on the Company's website.

中電控股有限公司
CLP Holdings Limited

(incorporated in Hong Kong with limited liability)
(Stock Code: 00002)

The Directors of CLP Holdings as at the date of this announcement are:

Non-executive Directors:	The Hon Sir Michael Kadoorie, Mr William Mocatta, Mr J. A. H. Leigh, Mr Andrew Brandler, Dr Y. B. Lee and Mr Philip Kadoorie
Independent Non-executive Directors:	Mr V. F. Moore, Sir Rod Eddington, Mr Nicholas C. Allen, Mr Vincent Cheng, Mrs Fanny Law, Mrs Zia Mody and Ms May Siew Boi Tan
Executive Directors:	Mr Richard Lancaster and Mr Geert Peeters

Energy for Brighter Tomorrows