Chairman’s Statement

“CLP is committed to working closely with governments where we operate to facilitate an orderly transition to a low carbon economy.”

The Honourable Sir Michael Kadoorie
Chairman
I am pleased to report that, following restructuring in Australia and better results from other overseas operations, the Group’s earnings in 2015 were at a record high. During the year, the Group’s operating earnings increased 14.6% from a year earlier to HK$11,533 million. Total earnings were up 39.6% to HK$15,670 million. The Board has recommended a fourth interim dividend of HK$1.05 per share for 2015. Together with the three interim dividends already paid, our total dividend this year is HK$2.70 per share, an increase from HK$2.62 in the previous year.

Our Chief Executive Officer, Richard Lancaster, will provide details of our 2015 performance in his Strategic Review. I intend to focus on two key issues for the Group – the review of the Scheme of Control (SoC) Agreement for our Hong Kong business, and our contribution to addressing the global challenge of climate change, a matter of great importance not just to our industry but to mankind as a whole.

Investing in Hong Kong’s Future

First, I wish to discuss the regulatory regime under which we operate. In November 2015, the Hong Kong Government announced the key findings from the public consultation on the future development of the electricity market in the city. The majority of respondents indicated that the current regulatory regime under the SoC had worked well, contributing to Hong Kong’s energy policy objectives. Respondents also agreed that power supply in Hong Kong was safe, reliable and affordable. Broadly speaking, they recognised the value of the SoC and supported a continuation of the established regulatory framework.

We welcome the results of this consultation and we have commenced our discussions with the Government to review the SoC. For over half a century, the SoC has served Hong Kong extremely well. The terms of the SoC have evolved with time to incorporate refinements to the regulatory framework as well as changing community aspirations and can continue to do so.

One of the strengths of the SoC has been its ability to ensure the delivery of a safe and reliable energy supply. In 2015, our supply reliability, measured as less than 1.5 customer minutes lost, was the best unplanned power interruption of any year. There are very few cities anywhere that can match this. Our tariff regime is also amongst the world’s most competitive.

Customers are at the very heart of our business. Serving our customers with a reliable, safe and clean supply of electricity at reasonable cost is not only our objective, but also our commitment. I am pleased to say that we delivered this again in 2015.

Sir Michael Kadoorie chats with a shareholder before the 2015 Annual General Meeting
I wish to stress one point that I have made many times: electricity is a highly capital intensive business and any investments we make are for the long term, often counted in decades. A stable regulatory arrangement that offers investors reasonable returns is crucial in attracting sufficient investment to provide the kind of performance our customers expect and deserve. These are two important factors that need to be considered in reviewing the SoC. We will work closely and constructively with the Government, our key stakeholders, customers and the community in the review process to ensure that Hong Kong continues to enjoy the highest standard of electricity service that it rightly deserves.

Managing the Transition to a Low Carbon Future

My second main point of emphasis is devoted to the issue of climate change. We acknowledge our role in addressing the impact of climate change. We published our Climate Vision 2050 in 2007 in which we laid out our voluntary plans for transitioning to a low carbon business by the year 2050. I was therefore happy to see the agreement reached in Paris at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21). This was a considerable achievement which we as a company firmly embrace and endorse. I believe the agreement will not only affect the energy industry, but also provides a clear direction for low carbon energy development which is critical if climate change is to be effectively tackled.

The Paris Agreement provides much-needed clarity on the future direction of the low carbon development plans of many countries. However, much remains to be done to implement the agreement. It requires cooperation between business and government, on behalf of the communities they serve, to develop ambitious and pragmatic plans which balance safety, affordability and environmental factors appropriate to each energy market. CLP is committed to working closely with governments where we operate to facilitate an orderly transition to a low carbon economy.

Managing the transition is a complex process requiring, at times, difficult choices to be made. In most places fossil fuel generation remains the cheapest and most reliable form of power generation. It also has the highest total carbon emissions. Wind and solar are the cleanest forms of energy for power generation but these resources are not always available and the fluctuations in power generated from these sources introduces considerable technical challenges for power grids. Shutting down fossil fuel assets to reduce emissions also has many ramifications. CLP strongly believes that policies need to address all of these issues. In short, they should facilitate transition in an orderly and sensible fashion by encouraging energy efficiency, the development of renewable energy and low carbon projects, whilst tackling existing emissions reduction through closure and decommissioning of existing plant over a reasonable period of time.

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Chairman’s Statement

I can assure you that CLP’s investment policies will aim to do just that. In our current business plan, we are targeting for half of our investments outside of Hong Kong to be in renewable energy. At the same time, we recognise that there are still places where people do not have access to electricity. We believe that in emerging markets where the demand for affordable electricity continues to grow, governments will continue to require new coal-fired power stations for some time. We believe that we can assist the emerging economies in which we currently have a presence to achieve this, by using our skills in developing high efficiency coal-fired technology to minimise environmental impact. At the same time, we maintain our long-term commitment to the measures outlined in our Climate Vision 2050, including our commitment to increase the share of renewable energy in our portfolio to 20% by 2020.

We are addressing this long-term commitment in many ways. In Hong Kong, for example, we are contributing to the Government’s latest climate change action plan and to the improvement in local air quality by proactively optimising our fuel mix to use cleaner fuels in power generation, and through the proposed construction of additional gas-fired generation capacity. Moreover, we have launched promotional public energy saving campaigns and rolled out a range of tools and solutions to help our customers to conserve energy. Elsewhere, in 2015, we introduced about 300MW of new solar and wind energy in Mainland China and India – our two main growth markets. We have also underwritten the development of almost 400MW of wind farms in Australia since late 2014 and secured competitive offtake arrangement from them. At the same time, our Fangchenggang II project in Guangxi, which uses the cleanest ultra-supercritical technology, will go on stream in 2016. We will build on these efforts in a timely and coordinated manner. In addition, we shall continue to explore opportunities in nuclear energy which plays a key role in helping the Mainland manage its carbon emissions.

Looking at the bigger picture, I believe we can take pride in the fact that in just over a decade, we have added about 3,000MW of renewable energy to our overall portfolio. There is much more to be done but we have laid a solid foundation. We are determined to work together with our customers and governments to create a greener and smarter future.

The Honourable Sir Michael Kadoorie
Hong Kong, 29 February 2016