Financial Review

Our financial figures in 2016 show how successfully we implemented our strategy, delivered economic values to our capital providers and generated the financial resources to drive future growth


Innovation
CLP
TECHNOLOGY
RENEWABLES

Financial Review

CLP Group's Financial Results and Position at a Glance

Strategy – "Focus • Delivery • Growth"

CLP's strategy is to focus on business activities and initiatives that best utilise our core competencies; deliver on the potential of our investments and generate growth for the shareholders. As such, Hong Kong remains our core market and strategic focus. Mainland China and India are our primary growth markets but will explore secondary growth opportunities in selective Southeast Asia countries. Our focus in Australia is to restore value.

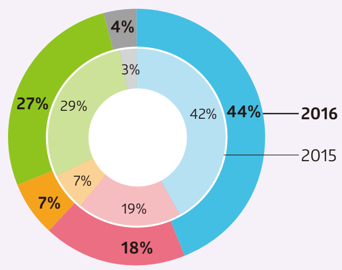
How Well We Achieve Our Strategy

Hong Kong as our core market contributed about 70% of Group operating earnings. It is encouraging that operating earnings from Australia more than doubled after our increased focus on customers, cost control and efficiency. Operating earnings from Mainland China dropped by 23.1% on challenging market conditions. Earnings of India after excluding certain one-off adjustments in 2015 improved. Pending any further investment opportunities in Southeast Asia, its earnings remained stable.

Last Year's Statement of Financial Position

	2015 HK$M
Working capital	
Receivables less payables	(5,211)
Cash and cash equivalents	3,565
Others	(1,177)
	(2,823)
Non-current assets	
Fixed assets, leasehold land and land use rights and investment properties	136,012
Others	45,677
	181,689
Debts and other non-current liabilities	
Bank loans and other borrowings [1]	(55,483)
Others	(22,451)
	(77,934)
Net assets	**100,932**
Equity	
Share capital, reserves and non-controlling interests, as restated [2]	28,049
Retained profits, as restated [2]	72,883
	100,932
Closing exchange rate	
A$ / HK$	5.6691
INR / HK$	0.1171
RMB / HK$	1.1935

2-Year Net Assets by Region



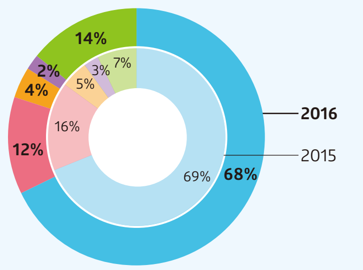
Hong Kong · India · Others · Mainland China · Australia

Notes:
1 Including current and non-current portions
2 Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies of the Financial Statements.

Statement of Profit or Loss

	2016 HK$M	2015 [2] HK$M	**Increase / (Decrease) %**
Revenue	**79,434**	80,700	(1.6)
Operating expenses	**(62,288)**	(67,580)	(7.8)
Other gain	**–**	8,900	
Operating profit	**17,146**	22,020	
Share of results of joint ventures and associates, net of tax	**1,641**	2,245	
Net finance costs	**(2,124)**	(3,936)	(46.0)
Income tax expense	**(2,855)**	(3,580)	
Attributable to non-controlling interests	**(1,097)**	(1,093)	
Earnings attributable to shareholders	**12,711**	15,656	(18.8)
Excluding: Items affecting comparability	**(377)**	(4,137)	
Operating earnings	**12,334**	11,519	7.1

2-Year Operating Earnings (Before Group Expenses) by Region



Hong Kong and Hong Kong Related · Southeast Asia and Taiwan · Mainland China · Australia · India

Average exchange rate	
A$ / HK$	5.7615
INR / HK$	0.1152
RMB / HK$	1.1649

Retained profits (HK$M)	
Balance at 31.12.2015, as restated [2]	72,883
Earnings attributable to shareholders	12,711
Dividends paid	(6,973)
Other movements	(74)
Balance at 31.12.2016	78,547
Fourth interim dividend declared for 2016, HK$/share	1.09

Adequate Resources Generated to Support Our Strategy

Free cash flow (FCF) represents the cash which a company can generate without causing issues to its operations. FCF can be used for distribution to the debt holders and shareholders and to grow the business.

Our FCF remained strong on the back of steady growth in Hong Kong electricity business and improved operations for businesses outside Hong Kong. FCF for the last five years can be found in the Broader Perspective (page 33).

Where We Stand

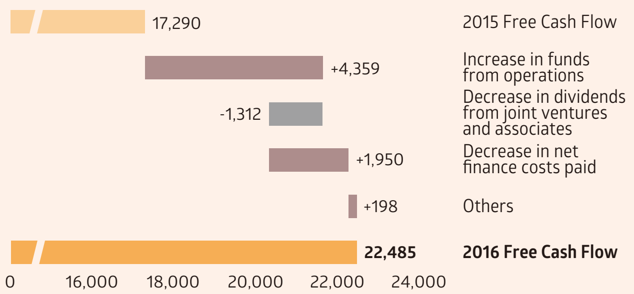
- Successful execution of strategy with continuous improvement in earnings and operations
- Invested HK$1.2 billion in renewables, which now represented 17% of our generation capacity and contributed HK$610 million to earnings
- Strong credit ratings with net debt to total capital reduced from 32.4% to 29.5%
- Delivered a total shareholders' return (share price appreciation and dividend payments) of 12.3% in 2016

Statement of Cash Flows

	2016 HK$M
Operating profit	17,146
Depreciation and amortisation	6,909
Impairment	397
Others	901
Funds from operations	25,353
Tax paid and interest received	(1,677)
Cash inflow from operating activities	23,676
Cash outflow from investing activities	(8,296)
Cash outflow from financing activities	(14,288)
Net increase in cash and cash equivalents	1,092
Cash and cash equivalents at 31.12.2015	3,565
Effect of exchange rate changes	(190)
Cash and cash equivalents at 31.12.2016	4,467
Free Cash Flow	
Funds from operations	25,353
Less: tax paid	(1,814)
Less: net finance costs paid *	(2,255)
Less: maintenance capital expenditure	(723)
Add: dividends from joint ventures and associates	1,924
	22,485

* Includes distributions paid to perpetual capital securities holders

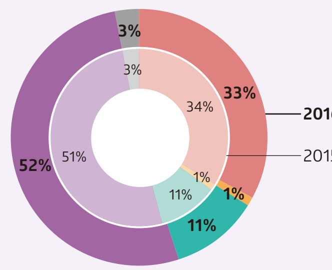
Movements in Free Cash Flow (HK$M)



This Year's Statement of Financial Position

	2016 HK$M
Working capital	
Receivables less payables	(6,122)
Cash and cash equivalents	4,467
Others	(1,836)
	(3,491)
Non-current assets	
Fixed assets, leasehold land and land use rights and investment properties	139,421
Others	43,359
	182,780
Debts and other non-current liabilities	
Bank loans and other borrowings [1]	(51,646)
Others	(21,870)
	(73,516)
Net assets	**105,773**
Equity	
Share capital, reserves and non-controlling interests	27,226
Retained profits	78,547
	105,773
Closing exchange rate	
A$ / HK$	5.5920
INR / HK$	0.1141
RMB / HK$	1.1121

Capital Assets # by Asset Type



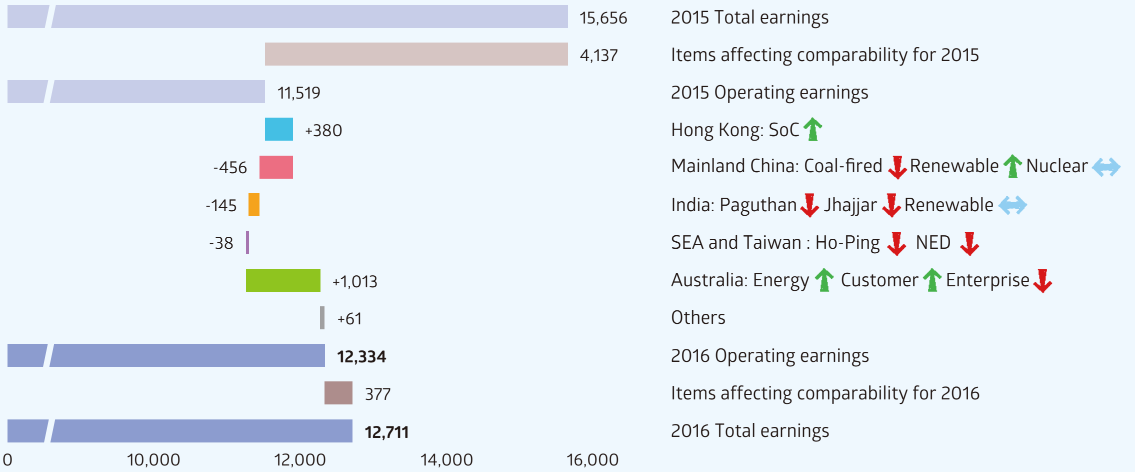
Coal and gas
Renewable
Others
Nuclear
Transmission, distribution and retail

\# Capital assets represent the year end balances of fixed assets, leasehold land and land use rights, investment properties, goodwill and other intangible assets, and interests in joint ventures and associates

Analysis on Financial Results

Total Earnings (2016: HK$12,711 million; 2015: HK$15,656 million, as restated; ↓18.8%)
Operating Earnings (2016: HK$12,334 million; 2015: HK$11,519 million, as restated; ↑7.1%)

Earnings for the Year (HK$M)



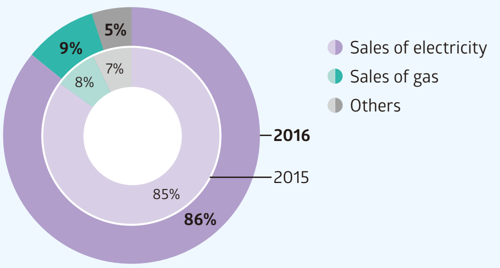
The performance of individual business is analysed on "Business Performance and Outlook" on pages 36 to 61.

Revenue (2016: HK$79,434 million; 2015: HK$80,700 million; ↓1.6%)
Operating Expenses (2016: HK$62,288 million; 2015: HK$67,580 million; ↓7.8%)

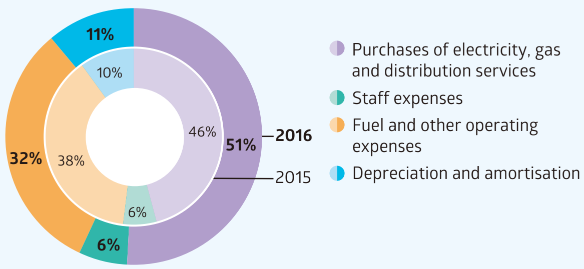
	Revenue				Operating Expenses			
	2016 HK$M	2015 HK$M	**Increase/(Decrease) HK$M**	**%**	**2016 HK$M**	2015 HK$M	**Increase/(Decrease) HK$M**	**%**
Hong Kong	**37,968**	38,937	(969)	(2.5)	**24,723**	26,586	(1,863)	(7.0)
Australia	**36,441**	35,707	734	2.1	**33,562**	35,981	(2,419)	(6.7)
India	**3,808**	5,104	(1,296)	(25.4)	**2,425**	3,675	(1,250)	(34.0)
Mainland China and others	**1,217**	952	265	27.8	**1,578**	1,338	240	17.9
	79,434	80,700	(1,266)		**62,288**	67,580	(5,292)	

- Hong Kong: Lower fuel cost recovery revenue in line with lower fuel cost incurred; basic tariff and other operating expenses remained stable
- Australia: Higher generation from Mount Piper and Yallourn; lower sales volume for retail despite higher margin; impairment and onerous provisions for generation assets of HK$2.1 billion in 2015
- India: Lower generation for Jhajjar on lower demand; more renewable projects commissioned; Paguthan remained stable
- Mainland China: Our investments are mainly through joint ventures and an associate, which under equity accounting method, there would be no proportionate shares of their revenues and expenses

Revenues by Nature



Operating Expenses by Nature



Analysis on Financial Position

Items Affecting Comparability (2016: HK$377 million; 2015: HK$4,137 million)

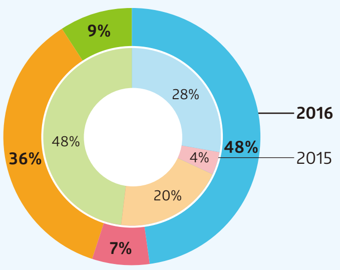
	2016 HK$M	2015 HK$M
Property revaluation and transaction		
Gain on sale of a property	643	–
Revaluation (losses) / gain on investment properties	(146)	99
Impairment and provision reversal		
Impairment provision for Fangchenggang	(199)#	–
Impairment provision for Beijing Yire Power Station	(58)	(243)
Reversal of onerous provision / (Impairment and onerous provisions) for generation assets	54	(1,480)
Reversal of over-provision of capital gain tax	83	–
Gain on sale of Iona Gas Plant	–	6,619
Costs associated with early termination of debt	–	(858)
	377	4,137

Due to the impact of several factors including the economic slowdown, discounted tariff of direct sale and oversupplied market in Guangxi Province, an impairment provision of HK$199 million was recognised by CLP.

Net Finance Costs (2016: HK$2,124 million; 2015: HK$3,936 million, as restated; ↓46.0%)

- Overall in 2016, we saw lower interest rates and lower average borrowings within the Group
- Hong Kong: Repayment of bridging loans for acquisition of CAPCO and lower interest rates
- India: Reduced finance costs by funding from internal operations
- Australia: Repayment of substantial debts in December 2015 and non-recurring costs (HK$1,226 million) associated with the close-out of debt and related financial derivatives in 2015

Net Finance Costs by Region

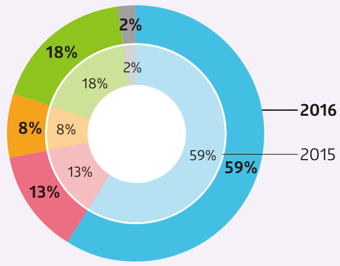


Hong Kong Mainland China India Australia

Total Assets (2016: HK$205,978 million; 2015: HK$203,964 million; ↑1.0%)

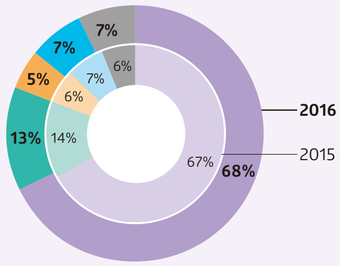
- Hong Kong still has the highest asset allocation among the Group because of its scale and scope of operation. 59% of total assets related to our business in Hong Kong. About two-third of it was transmission and distribution assets and one-third was generation assets.
- The assets employed by Australia accounted for 18% of total assets for its integrated business in Customer business (mainly goodwill and intangible assets) and Energy business (mainly Yallourn and Mount Piper).
- Substantial part of our operation in Mainland China is owned through our interests in joint ventures and an associate.

Total Assets by Region



Hong Kong India Others
Mainland China Australia

Total Assets by Asset Type



Fixed assets, leasehold land and land use rights and investment properties
Goodwill and other intangible assets
Interests in joint ventures and associates
Trade and other receivables
Others

Analysis on Financial Position

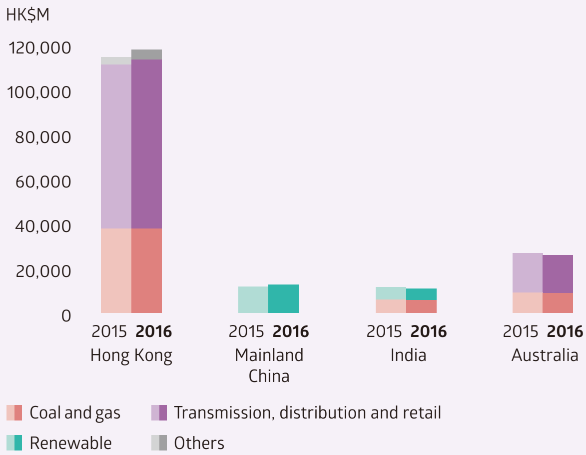
Fixed Assets, Leasehold Land and Land Use Rights and Investment Properties (2016: HK$139,421 million; 2015: HK$136,012 million; ↑2.5%)
Goodwill and Other Intangible Assets (2016: HK$27,653 million; 2015: HK$28,257 million; ↓2.1%)

- Major additions for the year including:
  - Hong Kong: SoC capital expenditure of HK$7.3 billion
  - Mainland China and India: Construction of wind and solar projects of HK$1,033 million
  - Australia: Enhancement of Yallourn, Mount Piper and customer service facilities
  - Corporate: Acquisition of remaining portion of Laguna Mall of HK$1,238 million for development of CLP headquarters
- Fixed assets of HK$1,027 million was brought in by acquisition of Sihong Solar as a subsidiary in July 2016
- The movements of balances as follows:

	Fixed Assets, Leasehold Land & Investment Properties HK$M	Goodwill and Other Intangible Assets HK$M
Opening balance at 1.1.2016	136,012	28,257
Additions	10,105	396
Acquisitions of Sihong and SE Solar	1,059	–
Depreciation and amortisation	(6,147)	(762)
Translation difference* and others	(1,608)	(238)
Closing balance at 31.12.2016	139,421	27,653

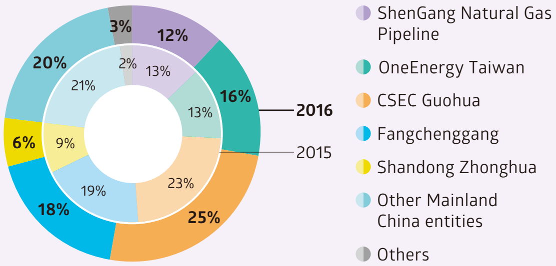
* Depreciation of Renminbi, Australian dollar and Indian rupee

- The above closing balances are analysed as follows:



Interests in Joint Ventures (2016: HK$9,971 million; 2015: HK$11,250 million; ↓11.4%)

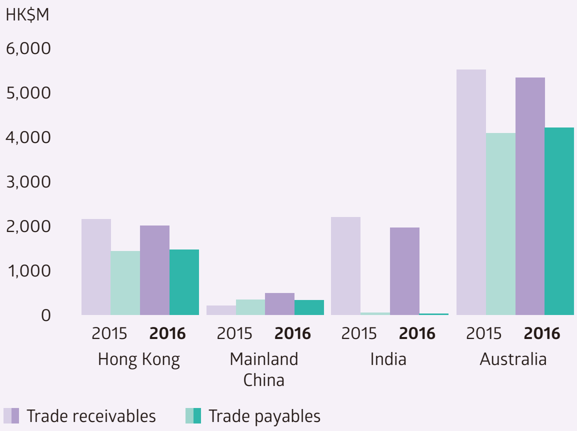
- Diversification of investments, e.g. investment in Smart Charge in Hong Kong with Hong Kong Telecom in 2016
- Reclassification of Sihong Solar from a joint venture to a subsidiary
- Overall lower earnings and dividends, coupled with Renminbi devaluation and impairment of Fangchenggang



Trade and Other Receivables (2016: HK$13,799 million; 2015: HK$13,812 million; ↓0.1%)
Trade and Other Payables (2016: HK$19,921 million; 2015: HK$19,023 million; ↑4.7%)

- Hong Kong: Stable receivables from SoC business; trade creditors mainly related to capital expenditure; inclusion of special fuel clause rebate payable of HK$785 million in 2016
- Mainland China: Higher receivables on more majority owned renewable projects; RMB500 million deposit paid for the acquisition of 17% interest in Yangjiang Nuclear
- India: Lower generation resulted in lower debtor balances
- Australia: Stablised operations with improvement in debt collection activities

Trade Receivables / Payables for 2-Year by Region



Derivative Financial Instruments

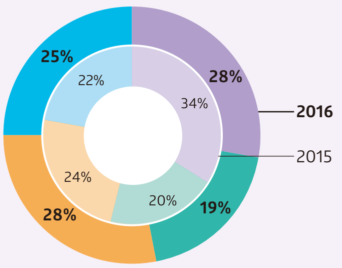
Assets: 2016: HK$2,211 million;
2015: HK$1,678 million; ↑31.8%;
Liabilities: 2016: HK$2,557 million;
2015: HK$3,397 million; ↓24.7%

CLP actively manages financial risks by using different derivative instruments with the objective of minimising the impact of foreign currency, interest rate and energy price fluctuations on Group's financial performance. As at 31 December 2016, the Group had gross outstanding derivative financial instruments which amounted to HK$86.9 billion. The fair value of these derivative instruments was a net deficit of HK$346 million, representing the net amount payable if these contracts were closed out at year end. However, changes in the fair value of derivatives have no impact on cash flows until settlement.

Decrease in net derivative liabilities was mainly due to the favourable mark-to-market movements on renewable offtake contracts in Australia and loan-related cross currency interest rate swaps in Hong Kong.

	Notional Amount		Fair Value Gain / (Loss)	
	2016	2015	**2016**	2015
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts and foreign exchange options	**40,003**	73,255	**438**	488
Interest rate swaps and cross currency interest rate swaps	**35,452**	33,838	**(945)**	(1,565)
Energy contracts	**11,469**	10,289	**161**	(642)
	86,924	117,382	**(346)**	(1,719)

Maturity Profile

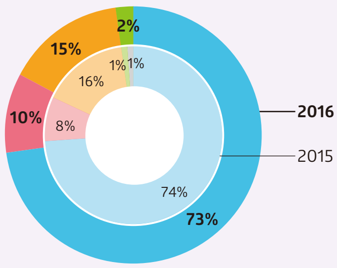


Bank Loans and Other Borrowings

(2016: HK$51,646 million; 2015: HK$55,483 million; ↓6.9%)

- The Group engaged in new financing activities during the year in support of the operation and business growth. On the other hand, we continue to solicit re-financing our debts at competitive terms.
- Major achievements in financing activities during the year including:
  - Hong Kong: Issued HK$500 million 15-year fixed rate Medium Term Note at attractive coupon rate;
  - India: Jhajjar issued the bonds of Rs.2.2 billion (HK$251 million) at fixed coupon rate in July 2016 with A+ credit rating from India rating agency; and
  - Australia: Reduction in bank loan facilities to economise finance costs.
- Strong operating cashflow and improvement in operating performance enabled the Group to reduce its debts and resulted in reduction in net debt to total capital ratio from 32.4% to 29.5%.

Bank Loans and Other Borrowings by Region



- Standard & Poor's revised the rating outlooks of CLP Holdings and CLP Power Hong Kong to positive from stable, and affirmed their credit ratings at A- and A respectively. It also upgraded the credit rating of EnergyAustralia from BBB- to BBB with outlook to positive. Moody's affirmed the A2 and A1 credit ratings of CLP Holdings and CLP Power Hong Kong respectively with stable outlooks.

More details on our financing and capital resources can be found on "Financial Capital".

Cash Flow Analysis

Free Cash Flow (2016: HK$22,485 million; 2015: HK$17,290 million; ↑ 30.0%)

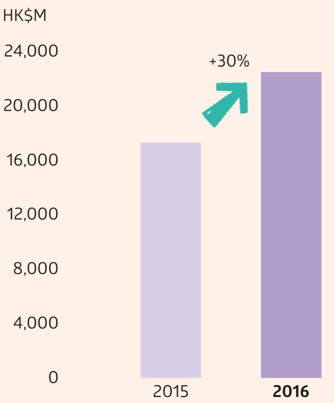
- Free cash flow increased by HK$5.2 billion primarily due to increase in cash inflows from SoC, improvement in working capital from Australia and lower finance costs paid offset by lower dividends from joint ventures (mainly Fangchenggang).
- Capital investments include fixed assets, leasehold land and land use rights, investment properties, intangible assets and investments in and advances to joint ventures and associates.

1 HK$7.1 billion SoC capital expenditure related to enhancing transmission and distribution networks, generation and customer services in Hong Kong

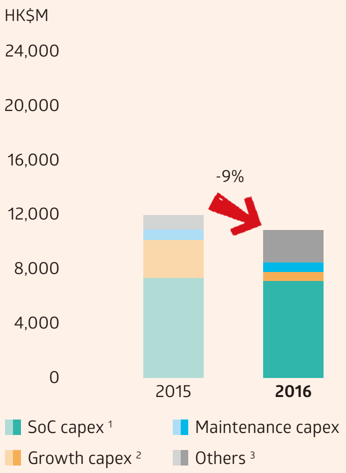
2 HK$635 million growth capital expenditure mainly related to our renewable projects in Mainland China

3 Others of HK$2.4 billion mainly included the acquisitions of remaining interest in Sihong Solar in Mainland China and SE Solar in India of a total of HK$236 million and deposit paid for acquistion of 17% interest in Yangjiang Nuclear of RMB500 million (HK$568 million)

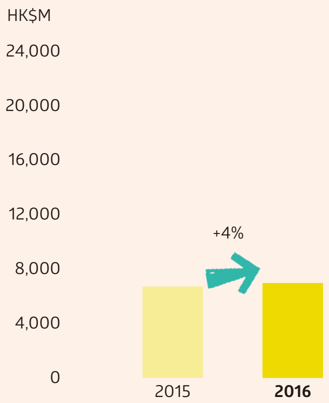
Free Cash Flow



Capital Investments



Dividends Paid



Financial Obligations at a Glance

The consolidated financial statements only show the financial obligations of CLP Holdings and its subsidiaries (category 1). In order to have a full picture of the financial risks of the Group associated with unconsolidated financial obligations, the borrowings of equity accounted entities (category 2) and off-balance sheet contingent liabilities (category 3) should also be included and assessed. The full financial obligations of the Group are presented below:

Category 1: Borrowings of subsidiaries are non-recourse to CLP Holdings.
Category 2: These debts are non-recourse to CLP Holdings and its subsidiaries. The share of debts is calculated by reference to the Group's shareholdings in the relevant joint ventures and associates.
Category 3: Details of the contingent liabilities are set out in Note 30 of the Financial Statements.

A Broader Perspective

	2016	2015 [1]	2014	2013	2012
Performance Indicators					
EBITDAF [2], HK$M	**25,355**	31,267	23,442	19,689	23,602
ACOI [3], HK$M	**18,128**	17,929	17,232	16,935	18,179
Operating earnings, HK$M	**12,334**	11,519	10,062	9,307	9,406
Total earnings, HK$M	**12,711**	15,656	11,221	6,060	8,312
Return on equity, %	**13.3**	17.3	12.8	6.8	10.1
Operating return on equity [4], %	**12.9**	12.7	11.5	10.4	10.9
Financial Health Indicators					
Undrawn facilities, HK$M	**23,986**	29,685	32,533	33,218	33,073
Total borrowings, HK$M	**51,646**	55,483	67,435	56,051	66,198
Fixed rate borrowings to total borrowings, %	**57**	57	58	67	57
FFO interest cover [5], times	**14.0**	9.2	9.1	8.1	7.3
FFO to debt [6], %	**47.3**	34.2	37.9	35.7	37.1
Net debt to total capital, %	**29.5**	32.4	38.0	36.7	36.8
Debt / Capitalisation [7], %	**28.7**	33.3	39.7	36.2	40.4
Shareholders' Return Indicators					
Dividends per share, HK$	**2.80**	2.70	2.62	2.57	2.57
Dividend yield, %	**3.9**	4.1	3.9	4.2	4.0
Total returns to shareholders [8], %	**6.4**	8.4	8.8	9.9	12.6

Readers can refer to "Shareholder Value" on pages 20 to 23 for more analysis on shareholders' return.

	2016	2015 [1]	2014	2013	2012
Cash Flows and Capital Investments					
FFO [5], HK$M	**25,353**	20,994	23,431	21,798	24,438
Free cash flow [9], HK$M	**22,485**	17,290	19,027	16,664	18,215
Capital investments, HK$M	**10,866**	11,967	12,314	9,791	10,313

Notes:

1 Comparative figures have been restated for the adoption of HKFRS 9 on hedge accounting.

2 EBITDAF = 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.

3 ACOI (Adjusted Current Operating Income) represents operating earnings before net finance costs, income tax, other non-controlling interests, distribution to perpetual capital securities holders and net fair value gain or loss on derivatives relating to transactions not qualified as hedges and ineffectiveness of cash flow hedges.

4 Operating return on equity = Operating earnings / Average shareholders' funds

5 FFO (Funds from operations) = Cash inflow from operations. FFO interest cover = FFO / (Interest charges + capitalised interest).

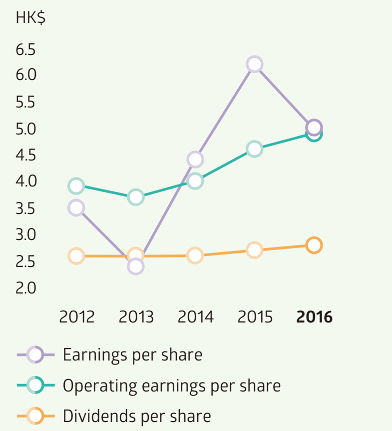
6 FFO to debt = FFO / Average debt. Debt = Bank loans and other borrowings.

7 Capitalisation = Closing share price on the last trading day of the year x number of issued shares at the end of the year

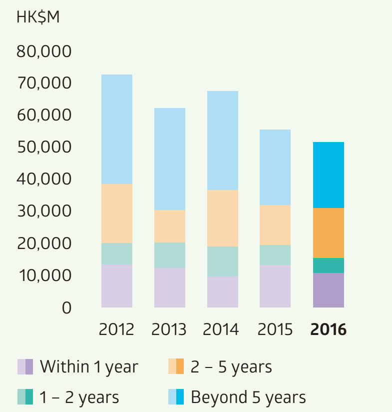
8 Total returns to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.

9 Free cash flow = FFO - income tax paid + interest received - interest and other finance costs paid - maintenance capital expenditure + dividends received from joint ventures and associates

Earnings and Dividends Per Share



Loan Balance [1] – Maturity [2]



Notes:

1 The 2014 to 2016 figures include CAPCO and PSDC as subsidiaries of the Group after the acquisitions. For comparative purpose, we have included CLP Group, CAPCO and PSDC in the 2012 and 2013 figures.

2 The maturities of revolving loans are in accordance with maturity dates of the respective facilities instead of the loan drawdown tenors.

Capital Investments