

Chairman's Statement



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 Honourable Sir Michael Kadoorie
Chairman

Dear Shareholders,

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.

Chairman's Statement

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.



Shareholders receive latest business updates and learn about our strategy from Board members (left and second left: Mr Philip Kadoorie, Director, and our Chairman) through our Shareholders' Visit programme.

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 towards 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

Hong Kong, 25 February 2019