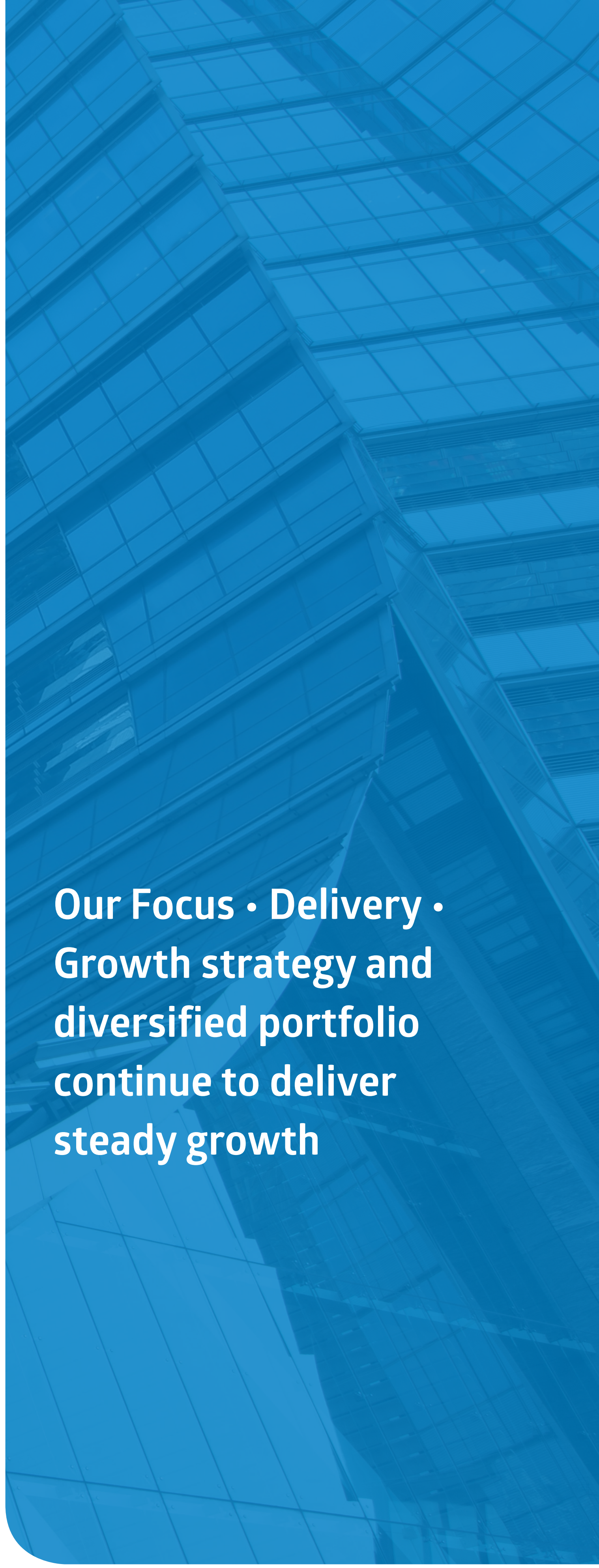
Financial Review

International Commerce Centre, Hong Kong



Our Focus • Delivery • Growth strategy and diversified portfolio continue to deliver steady growth

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. Our core market and strategic focus remain in Hong Kong. Mainland China and India continue to be our primary growth markets, with particular focus on renewable energy and other opportunities along the energy supply chain. Southeast Asia is our secondary growth market. Our focus in Australia is to restore value and progress gradually to long-term value creation.

How Well We Execute Our Strategy

Hong Kong business was the major earnings contributor, representing 66% of Group operating earnings. Australia business demonstrated a strong momentum and delivered solid results in a challenging market. Thermal and renewable projects in India performed steadily while thermal projects in Mainland China were adversely impacted by high coal prices and overcapacity. Earnings from Southeast Asia and Taiwan were aligned with the forecast and their operations remained stable.

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.

FCF in 2017 was strong due to improved working capital driven by better EBITDAF performance and the receipt of upfront payment for Argyle Street redevelopment project, partly offset by more SoC cash outflows. FCF provides resources to finance our investments in Yangjiang Nuclear and other projects and increases our cash reserves for funding future business opportunities. FCF for the last five years can be found in the Broader Perspective (page 35).

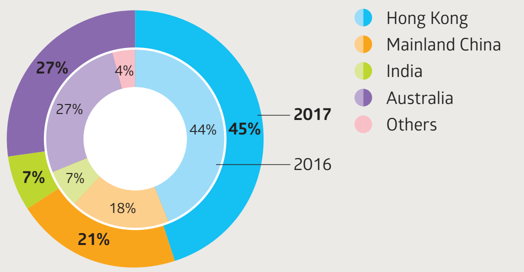
Where We Stand

- Successful execution of strategy and achieved solid performance in 2017 from the diversified portfolio
- Secured regulatory certainty in Hong Kong with a new SoC Agreement signed
- Increased our non-carbon emitting portfolio by acquisition of 17% interest in Yangjiang Nuclear
- Invested HK$1.5 billion in renewable projects, which now represented 13% of our generation capacity and contributed HK$649 million to earnings
- Credit ratings upgraded by Standard & Poor's
- Delivered a total shareholders' return (share price appreciation and dividend payments) of 16.3% in 2017

Last Year's Statement of Financial Position

	2016 HK$M
Working capital	
Trade and other receivables[1]	13,464
Trade and other payables[1]	(20,176)
Cash and cash equivalents	4,467
Others[1]	(1,161)
	(3,406)
Non-current assets	
Fixed assets, leasehold land and land use rights and investment properties	139,421
Interests in joint ventures and associates	10,784
Others[1]	32,490
	182,695
Debts and other non-current liabilities	
Bank loans and other borrowings[2]	(51,646)
Others	(21,870)
	(73,516)
Net assets	**105,773**
Equity	
Share capital, reserves and non-controlling interests	27,226
Retained profits	78,547
	105,773
Closing exchange rate	
A$ / HK$	5.5920
INR / HK$	0.1141
RMB / HK$	1.1121

2-Year Net Assets by Region

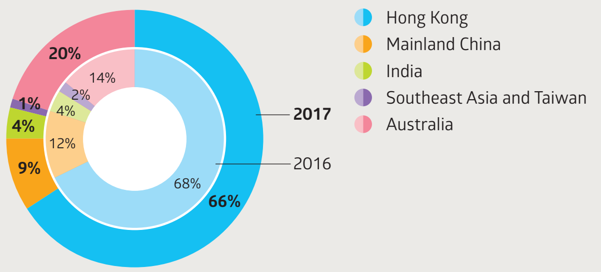


Notes:
1 Comparative figures have been reclassified to conform with current year's presentation. Details are set out in Note 1 of the Significant Accounting Policies to the Financial Statements.
2 Including current and non-current portions

Statement of Profit or Loss

	2017 HK$M	2016 HK$M	Increase / (Decrease) %
Revenue	92,073	79,434	15.9
EBITDAF of subsidiaries	26,204	23,714	10.5
Share of results of joint ventures and associates, net of tax	1,458	1,641	
EBITDAF of the Group	27,662	25,355	9.1
Depreciation and amortisation	(7,368)	(6,909)	6.6
Fair value adjustments	(138)	341	
Net finance costs	(2,029)	(2,124)	(4.5)
Income tax expense	(2,780)	(2,855)	
Attributable to non-controlling interests and perpetual capital securities holders	(1,098)	(1,097)	
Earnings attributable to shareholders	14,249	12,711	12.1
Excluding: Items affecting comparability	(942)	(377)	
Operating earnings	13,307	12,334	7.9
Average exchange rate			
A$ / HK$	5.9958	5.7615	4.1
INR / HK$	0.1200	0.1152	4.2
RMB / HK$	1.1571	1.1649	(0.7)

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



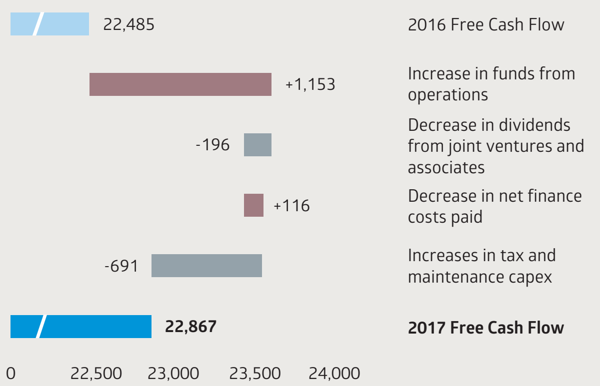
Retained profits (HK$M)	
Balance at 31.12.2016	78,547
Earnings attributable to shareholders	14,249
Dividends paid	(7,226)
Other movements	(271)
Balance at 31.12.2017	85,299
Fourth interim dividend declared for 2017, HK$ / share	1.14

Statement of Cash Flows

	2017 HK$M
EBITDAF of subsidiaries	26,204
SoC related movements	(1,291)
Working capital movements	1,675
Non-cash items	(82)
Funds from operations	26,506
Tax paid and interest received	(2,089)
Cash inflow from operating activities	24,417
Cash outflow from investing activities	(16,735)
Cash outflow from financing activities	(5,863)
Net increase in cash and cash equivalents	1,819
Cash and cash equivalents at 31.12.2016	4,467
Effect of exchange rate changes	243
Cash and cash equivalents at 31.12.2017	6,529
Free Cash Flow	
Funds from operations	26,506
Less: tax paid	(2,234)
Less: net finance costs paid *	(2,139)
Less: maintenance capital expenditure	(994)
Add: dividends from joint ventures and associates	1,728
	22,867

* Includes distributions paid to perpetual capital securities holders

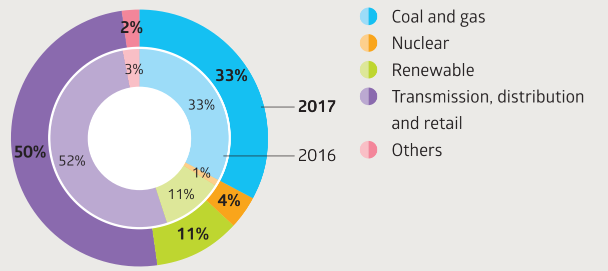
Movements in Free Cash Flow (HK$M)



This Year's Statement of Financial Position

	2017 HK$M
Working capital	
Trade and other receivables	15,427
Trade and other payables	(18,978)
Cash and cash equivalents	6,529
Others	2,770
	5,748
Non-current assets	
Fixed assets, leasehold land and land use rights and investment properties	143,738
Interests in joint ventures and associates	18,464
Others	32,239
	194,441
Debts and other non-current liabilities	
Bank loans and other borrowings[2]	(57,341)
Others	(21,341)
	(78,682)
Net assets	**121,507**
Equity	
Share capital, reserves and non-controlling interests	36,208
Retained profits	85,299
	121,507
Closing exchange rate	
A$ / HK$	6.1000
INR / HK$	0.1224
RMB / HK$	1.1994

Capital Assets[#] by Asset Type



[#] 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 (2017: HK$14,249 million; 2016: HK$12,711 million; ▲ 12.1%)
Operating Earnings (2017: HK$13,307 million; 2016: HK$12,334 million; ▲ 7.9%)

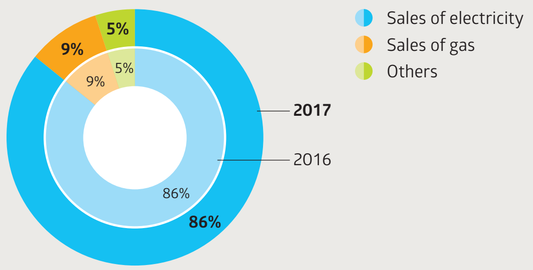
Earnings for the Year (HK$M)

The performance of individual business is analysed on "Business Performance and Outlook" on pages 38 to 65.

Revenue (2017: HK$92,073 million; 2016: HK$79,434 million; ▲ 15.9%)

	2017 HK$M	2016 HK$M	Increase HK$M	Increase %
Hong Kong	39,965	37,968	1,997	5.3
Australia	45,895	36,441	9,454	25.9
India	4,887	3,808	1,079	28.3
Mainland China and others	1,326	1,217	109	9.0
	92,073	79,434	12,639	

Revenues by Nature



- Hong Kong: Higher fuel cost recovery revenue in line with increase in fuel costs; higher basic tariff revenue despite stable sales volume
- Australia: Higher retail and wholesale electricity prices mainly reflecting the significant increase in pool prices due to Hazelwood closure and extreme weather; lower sales volume in face of severe market competition
- India: Higher generation of Jhajjar on higher demand; higher renewable revenue due to partial commissioning of Veltoor Solar; stable operation in Paguthan
- Mainland China: Our investments mainly through joint ventures and associates and thus no proportionate share of their revenues / expenses under equity accounting; higher revenue from subsidiaries as a result of acquisition of Sihong Solar in July 2016 and commissioning of wind and solar projects in late 2016 and throughout 2017

Hong Kong

	2017	2016
Electricity sales (GWh)		
Local sales	33,164	33,237
Total sales	34,505	34,442
Average total tariff (HK cents per unit)	113.2	113.2

Australia

	2017 Electricity TWh	2017 Gas PJ	2016 Electricity TWh	2016 Gas PJ
Customers				
Mass Market	10.9	34.7	10.8	34.6
Commercial & Industrial	8.0	23.1	9.2	31.5
Energy	Yallourn	Mount Piper	Yallourn	Mount Piper
Generations (GWh)	9,501	6,685	10,004	7,080
Average pool prices (A$/MWh)*	92.2	96.1	47.4	59.0

* Represented the 12-month average pool price published by Australian Energy Market Operator (AEMO) applicable to Victoria (Yallourn) and New South Wales (Mount Piper)

Items Affecting Comparability (2017: HK$942 million; 2016: HK$377 million)

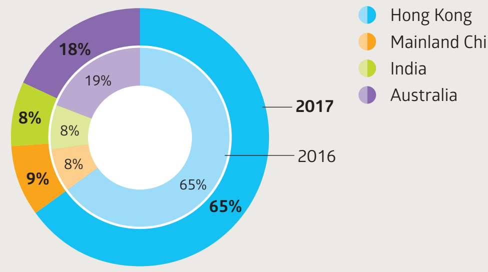
	2017 HK$M	2016 HK$M
Property revaluation and transaction		
Revaluation gains / (losses) on investment properties	369	(146)
Gain on sale of a property	–	643
Reversal of tax provision		
Tax on acquired derivatives in Australia*	573	–
Capital gain tax in Mainland China	–	83
Impairment and provision reversal		
Impairment provision for Fangchenggang	–	(199)
Impairment provision for Beijing Yire Power Station	–	(58)
Reversal of onerous provision in Australia	–	54
	942	377

* In December 2017, the Australian Taxation Office concluded the tax treatment of acquired derivatives. As a result, the provision made in 2014 was reversed.

Depreciation and Amortisation (2017: HK$7,368 million; 2016: HK$6,909 million; ▲ 6.6%)

- Hong Kong: Higher depreciation on continuous investments in SoC fixed assets
- Australia and India: Mainly impacted by higher average exchange rates in 2017
- Mainland China: Additional depreciation due to Sihong Solar acquisition in July 2016 and newly commissioned renewable projects in late 2016 and throughout 2017

Depreciation and Amortisation by Region



EBITDAF of Group (2017: HK$27,662 million; 2016: HK$25,355 million; ▲ 9.1%)

	2017 HK$M	2016 HK$M	Increase / (Decrease) HK$M	Increase / (Decrease) %
Hong Kong	18,035	17,691	344	1.9
Mainland China	2,512	2,319	193	8.3
India	2,110	1,954	156	8.0
Australia	5,421	3,798	1,623	42.7
Corporate and others	(416)	(407)	(9)	
	27,662	25,355	2,307	

- Hong Kong: Mainly reflecting increase in permitted return
- Mainland China: Higher contribution from newly commissioned renewable projects and full year effect of profit sharing from Sihong Solar; share of results of Yangjiang Nuclear in December 2017; exchange gains on Renminbi denominated receivables; more than offset by lower earnings from coal-fired joint ventures due to rising coal prices and low utilisation hours
- India: Higher Jhajjar contribution as a result of improvement in operational efficiency; partly offset by lower contribution from renewable projects caused by the write-off of Yermala wind project and provision made for a receivable from a wind O&M contractor
- Australia: Higher gross margin from energy (wholesale) segment benefitted from favourable contract settlements and higher prices at Yallourn and Mount Piper, and higher generation at Tallawarra; gross margin from customer (retail) segment improved marginally

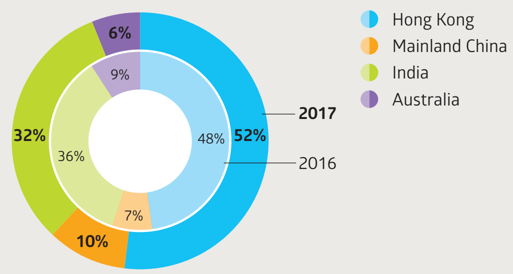
Fair Value Adjustments (2017: loss of HK$138 million; 2016: gain of HK$341 million)

- Hong Kong: Gain (2016: loss) on forward foreign exchange contracts, mainly Euro, for procurement related payments
- Australia: Unfavourable fair value movement on energy contracts (net energy selling) due to rising prices mainly in Victoria, and lower fair value gain on wind offtake contracts

Net Finance Costs (2017: HK$2,029 million; 2016: HK$2,124 million; ▼ 4.5%)

- Overall: Lower average interest rates despite higher debts, mainly for financing capital investments
- Hong Kong: Fair value loss (2016: gain) on hedging derivatives for perpetual capital securities partly offset by lower bank arrangement fees
- India: Lower interest on lower debts which were replaced by internal funding
- Australia: Lower interest on lower debts and lower commitment fees on fewer financing facilities

Net Finance Costs by Region



Analysis on Financial Position

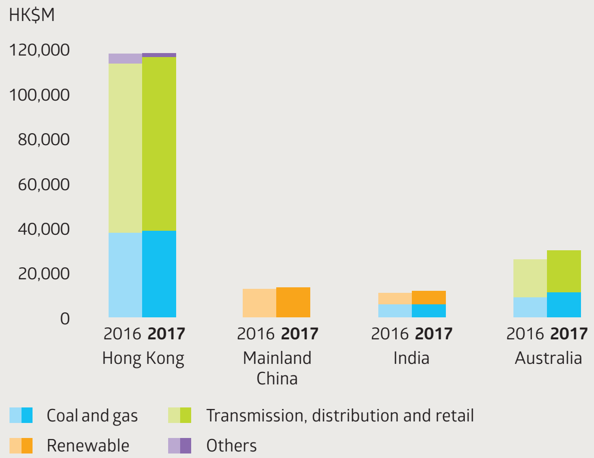
Fixed Assets, Leasehold Land and Land Use Rights and Investment Properties (2017: HK$143,738 million; 2016: HK$139,421 million; ↑ 3.1%)
Goodwill and Other Intangible Assets (2017: HK$29,087 million; 2016: HK$27,653 million; ↑ 5.2%)

	Fixed Assets, Leasehold Land and Land Use Rights and Investment Properties HK$M	Goodwill and Other Intangible Assets HK$M	Total HK$M	Breakdown SoC Assets HK$M	Non-SoC Assets HK$M
Opening balance at 1.1.2017	139,421	27,653	**167,074**	106,886	60,188
Additions #	12,097	549	**12,646**	8,068	4,578
Depreciation and amortisation	(6,690)	(678)	**(7,368)**	(4,706)	(2,662)
Transfer to property under development	(2,971)	–	**(2,971)**	–	(2,971)
Translation difference and others *	1,881	1,563	**3,444**	(424)	3,868
Closing balance at 31.12.2017	143,738	29,087	**172,825**	109,824	63,001

Including adjustment for decommissioning assets (HK$1,165 million) relating to the rehabilitation of certain sites in Australia
* Mainly appreciation of Australian dollar, Indian rupee and Renminbi, revaluation gains on investment properties and disposal of fixed assets

- Major capital additions for the year including:
  - SoC: Enhancement in transmission and distribution networks and customer service facilities and construction of the new Combined Cycle Gas Turbine (CCGT) plant
  - Non-SoC: Construction of wind and solar projects in Mainland China of HK$630 million and India of HK$827 million; and enhancement and capital works in generation plants, mainly Yallourn and Mount Piper, and upgrade of customer service facilities in Australia of HK$3,062 million
- Argyle Street site was transferred from investment properties to property under development upon execution of the joint development agreement with Sino Land in December 2017

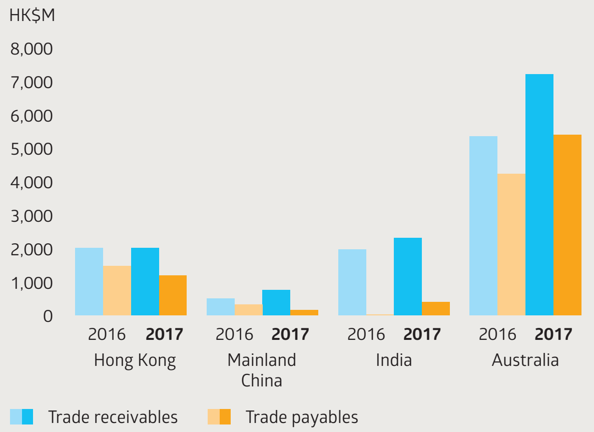
Analysis of Total Balances at Year Ends



Trade and Other Receivables (2017: HK$15,427 million; 2016: HK$13,464 million; ↑ 14.6%)
Trade and Other Payables (2017: HK$18,978 million; 2016: HK$20,176 million; ↓ 5.9%)

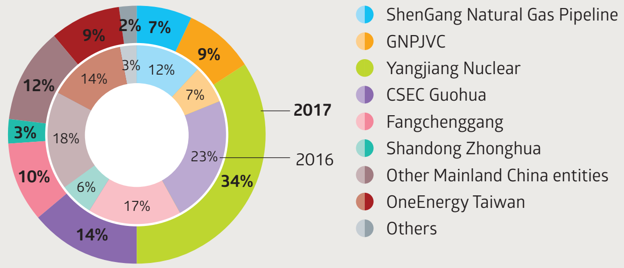
- Hong Kong: Lower other payable balance resulted from reclassification of certain advances from CSG of HK$5,115 million to non-controlling interests upon execution of the Shareholder Capital Agreement (Note 26 to the Financial Statements) and the special fuel rebate paid to customers in 2017
- Mainland China: Higher receivables on more majority owned renewable projects; receivable of HK$913 million from the sale of CGN Wind; partly offset by lower dividends receivable
- India: Higher generation of Jhajjar resulted in higher trade receivable and coal purchase payable; higher construction costs payable for Veltoor Solar
- Australia: Higher receivable and payable balances on higher tariffs, pool and contract prices, despite lower volumes

2-Year Trade Receivables / Payables by Region



Interests in Joint Ventures and Associates (2017: HK$18,464 million; 2016: HK$10,784 million; ↑ 71.2%)

- Completion of our acquisition of 17% stake in Yangjiang Nuclear at a consideration of HK$6.2 billion in December 2017;
- Renminbi translation gains on our investments in Mainland China; partly offset by
- Rising coal prices in Mainland China and Taiwan reduced earnings and dividend distributions from thermal projects



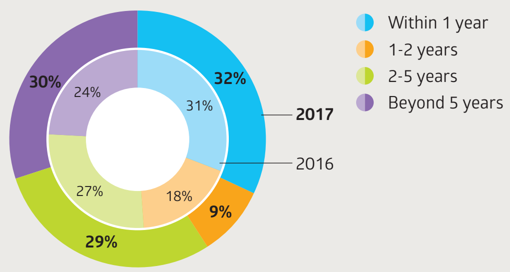
Derivative Financial Instruments
Assets:
2017: HK$2,093 million; 2016: HK$2,801 million; ↓ 25.3%;
Liabilities:
2017: HK$2,429 million; 2016: HK$2,557 million; ↓ 5.0%

As at 31 December 2017, the Group had gross outstanding derivative financial instruments which amounted to HK$81.0 billion. The fair value of these derivative instruments was a net deficit of HK$336 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.

The net fair value of derivatives was changed from asset in 2016 to liability in 2017 mainly because of the unfavourable mark-to-market movements in energy contracts (due to rising wholesale prices) and loan-related derivatives in India (due to weakening of US dollar against Indian rupees).

	Notional Amount 2017 HK$M	2016 HK$M	Fair Value Gain / (Loss) 2017 HK$M	2016 HK$M
Forward foreign exchange contracts and foreign exchange options	**27,203**	40,003	**308**	438
Interest rate swaps and cross currency interest rate swaps	**34,902**	35,452	**(818)**	(945)
Energy contracts	**18,878**	14,971	**174**	751
	80,983	90,426	**(336)**	244

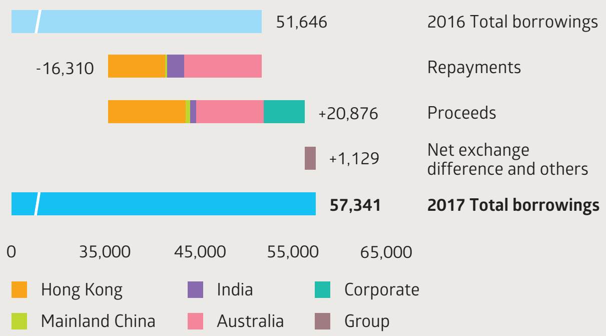
Maturity Profile



Bank Loans and Other Borrowings
(2017: HK$57,341 million; 2016: HK$51,646 million; ↑ 11.0%)

- CLP Climate Action Finance Framework was established in 2017 to facilitate the arrangement of sustainable financing for achieving goals in our Climate Vision 2050
- Major financing activities during the year including:
  - Hong Kong: CAPCO established MTN Programme for the first time with strong credit ratings (Standard & Poor's: AA-; Moody's: A1) and bonds issuance up to US$2 billion, of which US$500 million was issued in 2017 for financing CCGT project
  - India: Refinanced US dollar loans with corporate bonds at more cost effective terms and maximised the use of internal funding in renewable portfolio to reduce external debts
  - Australia: Scheduled loan repayments and reduction in bank loan facilities to save costs
  - Corporate: Arranged HK$5.1 billion 2-year bank loan facilities to fund the acquisition of 17% equity stake in Yangjiang Nuclear

Movements in Bank Loans and Other Borrowings (HK$M)



- The net debt to total capital ratio was reduced from 29.5% to 27.8%.
- Standard & Poor's upgraded the credit ratings of CLP Holdings from A- to A and CLP Power Hong Kong from A to A+. Credit rating of EnergyAustralia was also raised from BBB to BBB+ with stable outlook. Moody's affirmed the credit ratings of CLP Holdings (A2) and CLP Power Hong Kong (A1).

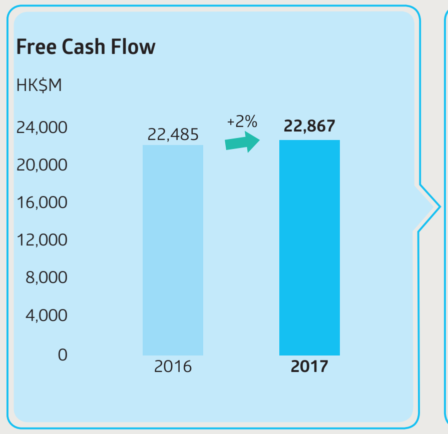
More details can be found on "Financial Capital".

Cash Flow Analysis

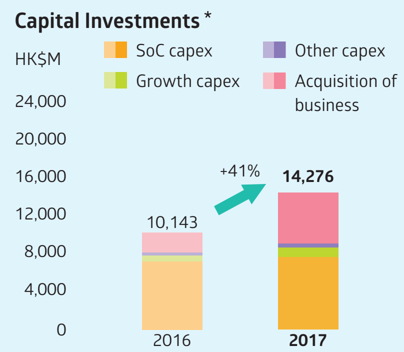
Free Cash Flow (2017: HK$22,867 million; 2016: HK$22,485 million; ↑ 1.7%)

- Free cash flow increased HK$382 million because of:
  - Receipt of upfront payment of HK$3 billion from the joint development project at Argyle Street;
  - Favourable working capital movements from EnergyAustralia driven by improved financial performance; partly offset by
  - More SoC cash outflows due to payment of special fuel rebate of HK$786 million and lower fuel cost recovery from customers
- Capital investments include additions to fixed assets, leasehold land and land use rights, investment properties and intangible assets, and investments in and advances to joint ventures and associates, and acquisition of business. Major items include:
  - HK$7.6 billion of SoC capital expenditure (SoC capex) to enhance transmission and distribution networks, generation facilities and customer services in Hong Kong
  - HK$946 million of Growth capital expenditure (Growth capex) related to our renewable projects in Mainland China and India
  - Balance payment after initial deposit of HK$5.3 billion (RMB4.5 billion) for acquisition of 17% interest in Yangjiang Nuclear

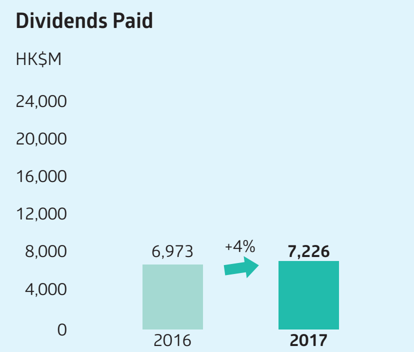
Cash Inflow



Cash Outflow



* Excluding maintenance capex as deducted from free cash flow



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) are also included. The full financial obligations of the Group are presented below:

Consolidated Category 1 — Debts and Borrowings of CLP Holdings and Subsidiaries
2017: HK$57,341 million
2016: HK$51,646 million

Equity Accounted Category 2 — Share of Debts of Joint Ventures and Associates
2017: HK$18,778 million
2016: HK$7,991 million

Off-balance Sheet Category 3 — Contingent Liabilities
2017: HK$7,305 million
2016: HK$1,289 million

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 to the Financial Statements.

A Broader Perspective

	2017	2016	2015	2014	2013
Performance Indicators					
EBITDAF[1], HK$M	**27,662**	25,355	31,267	23,442	19,689
ACOI[2], HK$M	**19,925**	18,128	17,929	17,232	16,935
Operating earnings, HK$M	**13,307**	12,334	11,519	10,062	9,307
Total earnings, HK$M	**14,249**	12,711	15,656	11,221	6,060
Return on equity, %	**13.8**	13.3	17.3	12.8	6.8
Operating return on equity[3], %	**12.9**	12.9	12.7	11.5	10.4
Financial Health Indicators					
Undrawn facilities, HK$M	**25,924**	23,986	29,685	32,533	33,218
Total borrowings, HK$M	**57,341**	51,646	55,483	67,435	56,051
Fixed rate borrowings to total borrowings, %	**52**	57	57	58	67
FFO interest cover[4], times	**14.6**	14.0	9.2	9.1	8.1
FFO to debt[5], %	**48.6**	47.3	34.2	37.9	35.7
Net debt to total capital, %	**27.8**	29.5	32.4	38.0	36.7
Debt / Capitalisation[6], %	**28.4**	28.7	33.3	39.7	36.2
Shareholders' Return Indicators					
Dividends per share, HK$	**2.91**	2.80	2.70	2.62	2.57
Dividend yield, %	**3.6**	3.9	4.1	3.9	4.2
Total returns to shareholders[7], %	**8.4**	6.4	8.4	8.8	9.9

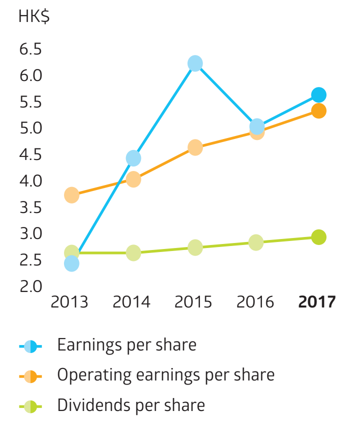
Readers can refer to "Shareholder Value" on pages 22 to 25 for more analysis on shareholders' return.

Cash Flows and Capital Investments					
FFO[4], HK$M	**26,506**	25,353	20,994	23,431	21,798
Free cash flow[8], HK$M	**22,867**	22,485	17,290	19,027	16,664
Capital investments, HK$M	**15,270**	10,866	11,967	25,824	10,745

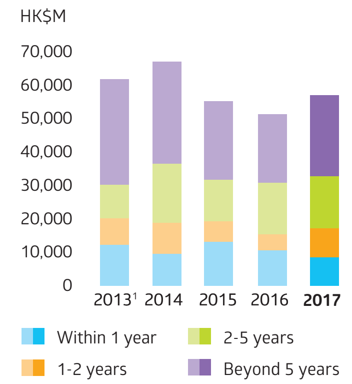
Notes:

1 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.
2 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 / loss on derivatives relating to transactions not qualified as hedges and ineffectiveness of cash flow hedges.
3 Operating return on equity = Operating earnings / Average shareholders' funds
4 FFO (Funds from operations) = Cash inflow from operations. FFO interest cover = FFO / (Interest charges + capitalised interest).
5 FFO to debt = FFO / Average debt. Debt = Bank loans and other borrowings.
6 Capitalisation = Closing share price on the last trading day of the year x number of issued shares at the end of the year
7 Total returns to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.
8 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 – Maturity[2]



Notes:
1 The 2014 to 2017 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 2013 figure.
2 The maturities of revolving loans are in accordance with maturity dates of the respective facilities instead of the loan drawdown tenors.

Capital Investments