

Financial Review

We invest for the long-term development of our business and manage our operations with discipline to deliver sustainable growth.

Growth



Develop

DISCIPLINE

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. 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. We seek to transform into a Utility of the Future through decarbonation and digitalisation.

How Well We Execute Our Strategy

Hong Kong electricity business continued to be the major earnings contributor although its earnings dropped by 3.4% with a lower permitted rate of return since 1 October 2018. Robust performance in Australia accounted for around a quarter of Group operating earnings. Our investment in Yangjiang Nuclear brought in significant earnings contribution in Mainland China. Earnings from India, Southeast Asia and Taiwan remained stable. During the year, we grew the business by completing the acquisitions of Ecogen gas-fired power stations in Australia, Jinchang Solar in Mainland China and Gale and Tornado Solar in India.

Last Year's Statement of Financial Position

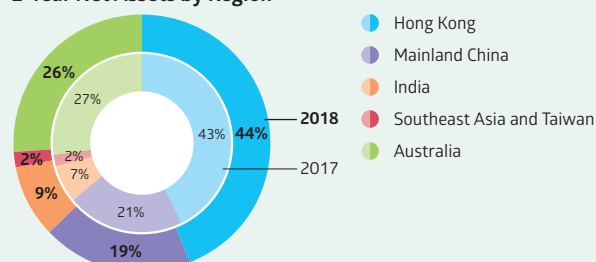
	2017	
	HK\$M	
Working capital		
Trade and other receivables	15,427	
Trade and other payables	(18,978)	
Cash and cash equivalents	6,529	
Others	2,770	
	<u>5,748</u>	
Non-current assets		
Fixed assets, leasehold land and land use rights and investment property	143,738	
Interests in joint ventures and associates	18,464	
Others	32,239	
	<u>194,441</u>	
Debts and other non-current liabilities		
Bank loans and other borrowings*	(57,341)	
Others	(21,341)	
	<u>(78,682)</u>	
Net assets	<u>121,507</u>	
Equity		
Share capital and reserves	23,398	
Retained profits	85,299	
Non-controlling interests and perpetual capital securities	12,810	
	<u>121,507</u>	

* Including current and non-current portions

Closing exchange rate

A\$/HK\$	6.1000
INR/HK\$	0.1224
RMB/HK\$	1.1994

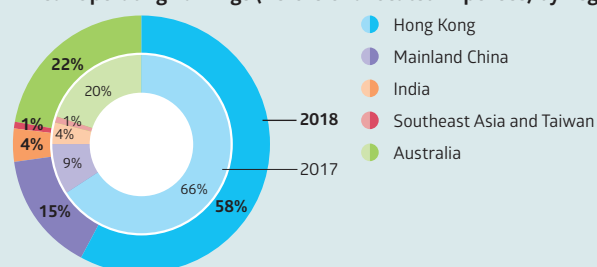
2-Year Net Assets by Region



Statement of Profit or Loss

	2018	2017	Increase / (Decrease) %
	HK\$M	HK\$M	
Revenue	91,425	92,073	(0.7)
EBITDAF of the Group	26,235	26,204	
Share of results of joint ventures and associates, net of tax	2,336	1,458	
Consolidated EBITDAF	28,571	27,662	3.3
Depreciation and amortisation	(8,005)	(7,368)	8.6
Fair value losses	(68)	(138)	(50.7)
Net finance costs	(1,857)	(2,029)	(8.5)
Income tax expense	(4,014)	(2,780)	44.4
Attributable to non-controlling interests and perpetual capital securities holders	(1,077)	(1,098)	
Earnings attributable to shareholders	13,550	14,249	(4.9)
Excluding: Items affecting comparability	432	(942)	
Operating earnings	13,982	13,307	5.1
Average exchange rate			
A\$/HK\$	5.8376	5.9958	(2.6)
INR/HK\$	0.1146	0.1200	(4.5)
RMB/HK\$	1.1825	1.1571	2.2

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



Retained profits (HK\$M)

Balance at 31.12.2017	85,299
Earnings attributable to shareholders	13,550
Dividends paid	(7,503)
Other movements	(35)
Balance at 31.12.2018	91,311
Fourth interim dividend declared for 2018, HK\$ / share	1.19

Adequate Resources Generated to Support Our Strategy

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

Free cash flow in 2018 was in line with strong financial performance which was used to finance various acquisitions and upgrade our assets in current year. Our strong cash flows and abundant cash reserve provide adequate financial resources to grow the business. Free cash flow for the last five years can be found in the Broader Perspective (page 37).

Where We Stand

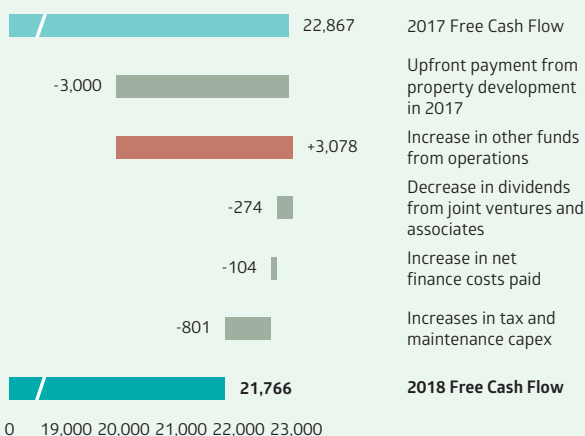
- Diversified portfolio delivered robust financial performance in 2018
- New Development Plan lays foundation for investments in cleaner and smarter energy systems in Hong Kong
- Expansion of our renewable generating capacity through acquisitions of solar projects in Mainland China and India
- Contributions from the non-carbon emitting portfolio increased to HK\$2,687 million and represented 19.2% of Group operating earnings
- Strong investment grade credit ratings maintained
- Provided a total shareholders' return (share price appreciation and dividend payments) of 14.6% in 2018

Statement of Cash Flows

	2018 HK\$M
EBITDAF of the Group	26,235
SoC related movements	(985)
Working capital movements	627
Non-cash items	707
Funds from operations	26,584
Tax paid and interest received	(2,633)
Cash inflow from operating activities	23,951
Cash outflow from investing activities	(11,259)
Cash outflow from financing activities	(11,505)
Net increase in cash and cash equivalents	1,187
Cash and cash equivalents at 31.12.2017	6,529
Effect of exchange rate changes	(351)
Cash and cash equivalents at 31.12.2018	7,365
Free Cash Flow	
Funds from operations	26,584
Less: tax paid	(2,819)
Less: net finance costs paid ^	(2,243)
Less: maintenance capital expenditure	(1,210)
Add: dividends from joint ventures and associates	1,454
	21,766

^ Includes distributions paid to perpetual capital securities holders

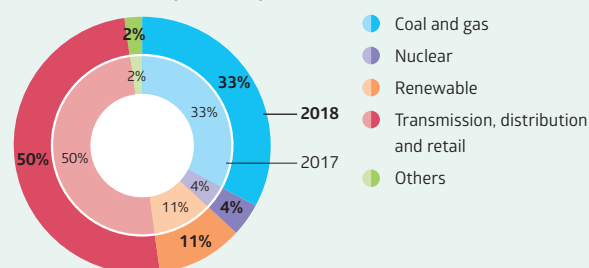
Movements in Free Cash Flow (HK\$M)



This Year's Statement of Financial Position

	2018 HK\$M
Working capital	
Trade and other receivables	15,917
Trade and other payables	(19,061)
Cash and cash equivalents	7,365
Others	3,180
	7,401
Non-current assets	
Fixed assets, leasehold land and land use rights and investment property	147,945
Interests in joint ventures and associates	17,420
Others	29,649
	195,014
Debts and other non-current liabilities	
Bank loans and other borrowings *	(55,298)
Others	(22,185)
	(77,483)
Net assets	124,932
Equity	
Share capital and reserves	17,742
Retained profits	91,311
Non-controlling interests and perpetual capital securities	15,879
	124,932
Closing exchange rate	
AS / HK\$	5.5171
INR / HK\$	0.1120
RMB / HK\$	1.1380

Capital Assets # by Asset Type

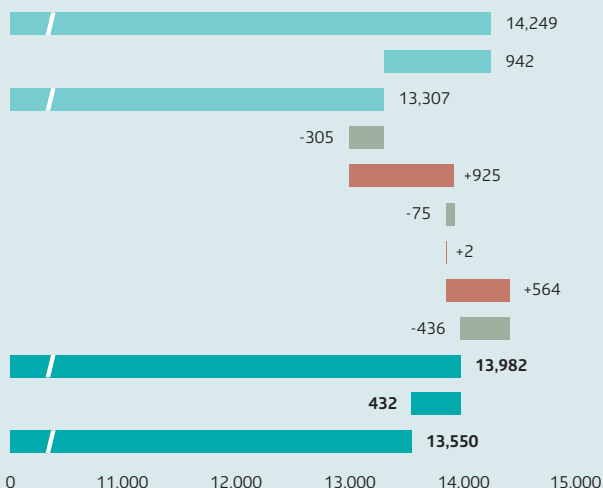


Capital assets represent the year end balances of fixed assets, leasehold land and land use rights, investment property, goodwill and other intangible assets, and interests in joint ventures and associates

Analysis on Financial Results

Total Earnings (2018: HK\$13,550 million; 2017: HK\$14,249 million; ↓ 4.9%)
Operating Earnings (2018: HK\$13,982 million; 2017: HK\$13,307 million; ↑ 5.1%)

Earnings for the Year (HK\$M)



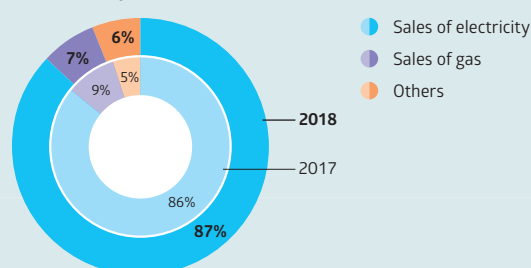
2017 Total earnings
 Items affecting comparability for 2017
 2017 Operating earnings
 Hong Kong: SoC ↓
 Mainland China: Nuclear ↑ Renewable ↑ Coal-fired ↓
 India: Paguthan ↔ Jhajjar ↓ Renewable ↑
 Southeast Asia and Taiwan: Ho-Ping ↓ Lopburi ↑
 Australia: Energy ↑ Customer ↓ Enterprise ↓
 Corporate and others
 2018 Operating earnings
 Items affecting comparability for 2018
 2018 Total earnings

The performance of individual business is analysed on "Business Performance and Outlook" on pages 40 to 67.

Revenue (2018: HK\$91,425 million; 2017: HK\$92,073 million; ↓ 0.7%)

	2018 HK\$M	2017 HK\$M	Increase / (Decrease) HK\$M	%
Hong Kong	41,623	39,965	1,658	4.1
Australia	43,013	45,895	(2,882)	(6.3)
India	5,269	4,887	382	7.8
Mainland China and others	1,520	1,326	194	14.6
Total	91,425	92,073	(648)	

Revenues by Nature



- Hong Kong: Higher fuel cost recovery revenue due to higher fuel costs, higher basic tariff for nine months ended 30 September 2018 with stable sales volume

Hong Kong		
	2018	2017
Electricity sales (GWh)		
Local sales	33,662	33,164
Total sales	34,218	34,505
Average net tariff (HK cents per unit)		
January to September	115.4	113.2
October to December	117.7	113.2

- Australia: Impact from lower AUD average exchange rate, lower generation revenue on lower pool prices and lower gas sales on lower availability of gas supply, partly compensated by higher retail electricity revenue on higher tariffs, despite higher discounts and lower customer accounts

Australia				
	2018		2017	
	Electricity TWh	Gas PJ	Electricity TWh	Gas PJ
Customers				
Mass Market	10.4	33.3	10.9	34.7
Commercial & Industrial	8.7	10.2	8.0	23.1
Energy				
Generations (GWh)	9,371	8,193	9,946	6,880
Average pool prices (A\$/MWh) *	90.5	82.3	92.2	96.1

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

- India: Higher energy charges on higher generation and higher capacity charges at Jhajjar; higher renewable revenue due to full year revenue from Veltoor Solar since its partial commissioning in August 2017; Paguthan's operation remained stable
- Mainland China: Higher revenue as a result of additional revenue brought in by acquisition of Jinchang Solar in May 2018, more wind resources and lower grid curtailment, and more renewable projects commissioned since the second half of 2017

Consolidated EBITDAF (2018: HK\$28,571 million; 2017: HK\$27,662 million; ↑ 3.3%)

	2018	2017	Increase / (Decrease)	
	HK\$M	HK\$M	HK\$M	%
Hong Kong	17,559	18,035	(476)	(2.6)
Mainland China	3,563	2,512	1,051	41.8
India	1,543	2,110	(567)	(26.9)
Australia	6,566	5,421	1,145	21.1
Corporate and others	(660)	(416)	(244)	
	28,571	27,662	909	

2018 Item Affecting Comparability

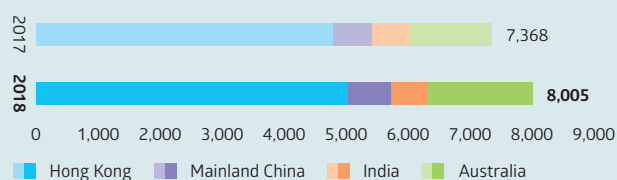
A provision of HK\$450 million (Rs3,796 million) was made for the deemed generation dispute in India. While CLP India has not altered its view regarding the legal merits of the claim, in view of the expiry of the Paguthan's PPA and uncertainty on the timing of recoverability, it is appropriate to make a provision against the amounts withheld by the offtaker. Details are set out in Note 30(A) to the Financial Statements.

- Hong Kong: Lower permitted rate of return partly compensated by higher return on higher average net fixed assets
- Mainland China: Nuclear contributed more than half of EBITDAF as a result of first full year contribution from Yangjiang Nuclear; renewables benefitted from more resources with less grid curtailment and more majority-owned projects in operation since the second half 2017; coal-fired projects negatively impacted by higher coal prices despite higher outputs mainly from Fangchenggang
- India: Lower Jhajjar's contribution due to lower operational efficiency (due to coal supply issue and planned outage) and higher operating and maintenance costs; higher contribution from renewable projects driven by full year operation from Veltoor Solar, more wind resources in 2018 and inclusion of one-off losses in 2017; excluding the provision for deemed generation dispute (see above), Paguthan's operation remained stable
- Australia: Higher gross margin from energy (wholesale) segment benefitted from higher prices at Yallourn, Mount Piper and Ecogen and increased generation from Mount Piper; higher discounts and lower customer accounts in a competitive market resulted in lower gross margin from customer (retail) segment
- Corporate and others: Exchange loss (2017: gain) from Renminbi-denominated deposits and higher innovation and corporate development expenses

Depreciation and Amortisation (2018: HK\$8,005 million; 2017: HK\$7,368 million; ↑ 8.6%)

- Hong Kong: Higher depreciation on continuous investments in SoC fixed assets
- Mainland China: Additional depreciation from Jinchang Solar acquisition since May and commissioning of projects since second half 2017
- India: Increase in depreciation from Veltoor Solar after full year commissioning largely offset by lower average INR exchange rate in 2018
- Australia: Increase in depreciation on higher decommissioning assets arising from higher asset remediation costs and additional depreciation from Ecogen and higher amortisation from customer related assets

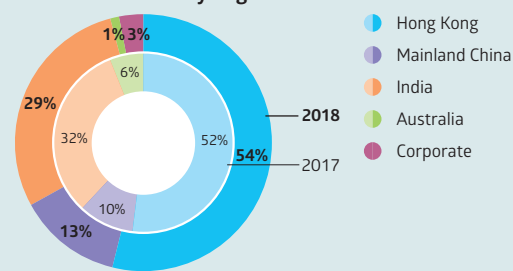
Depreciation and Amortisation by Region (HK\$M)



Net Finance Costs (2018: HK\$1,857 million; 2017: HK\$2,029 million; ↓ 8.5%)

- Hong Kong: Fair value gain (2017: loss) on currency-related derivative contracts for perpetual capital securities
- India: Continuous repayments of debts and refinancing at lower interest rates
- Australia: Minimal net finance costs after repayment of all external debts in 2018 and interest income from surplus funds
- Corporate: Full year interest on borrowings for financing Yangjiang acquisition since late 2017

Net Finance Costs by Region



Fair Value Losses (2018: HK\$68 million; 2017: HK\$138 million; ↓ 50.7%)

- Hong Kong: Loss in 2018 (2017: gain) on forward foreign exchange contracts, mainly Euro and British Pound, for procurement related payments
- Australia: Less unfavourable fair value movement on energy contracts due to roll off of out-of-money contracts during the year

Income Tax Expense (2018: HK\$4,014 million; 2017: HK\$2,780 million; ↑ 44.4%)

- India: Despite lower recurring profits, higher tax due to recognition of tax credit on previous years' losses in 2017
- Mainland China: Higher withholding tax in line with improved results
- Australia: Provision on acquired derivatives of HK\$573 million reversed in 2017 and higher tax on improved performance

Analysis on Financial Position

Fixed Assets, Leasehold Land and Land Use Rights and Investment Property (2018: HK\$147,945 million; 2017: HK\$143,738 million; \uparrow 2.9%)

Goodwill and Other Intangible Assets (2018: HK\$26,910 million; 2017: HK\$29,087 million; \downarrow 7.5%)

	Fixed Assets, Leasehold Land and Land Use Rights and Investment Property	Goodwill and Other Intangible Assets	Total	Breakdown	
				SoC Assets	Non-SoC Assets
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Balance at 1.1.2018	143,738	29,087	172,825	109,824	63,001
Acquisitions of subsidiaries # and transfer from finance lease receivables	3,393	-	3,393	-	3,393
Additions	11,133	565	11,698	8,922	2,776
Depreciation and amortisation	(7,056)	(949)	(8,005)	(4,931)	(3,074)
Translation difference and others *	(3,263)	(1,793)	(5,056)	(520)	(4,536)
Balance at 31.12.2018	147,945	26,910	174,855	113,295	61,560

Fixed assets brought in by acquisitions of Ecogen (April), Jinchang Solar (May), Gale and Tornado Solar (November)

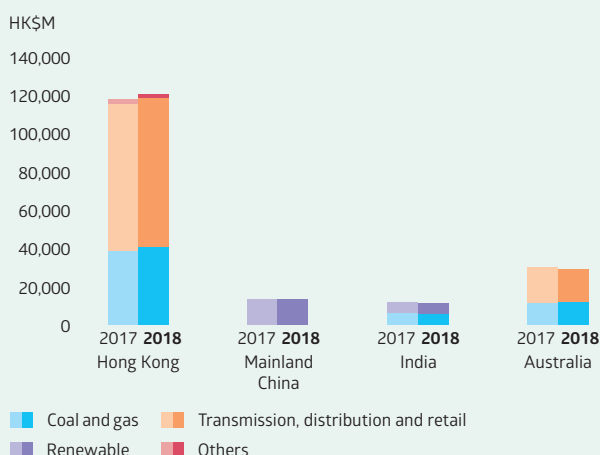
* Mainly depreciation of Australian dollar, Indian rupee and Renminbi and disposal of fixed assets

• Major capital additions for the year including:

- SoC: Continuous improvement of transmission and distribution networks and various enhancement works at Black Point Power Station, such as upgrade of gas turbines and construction of Combined Cycle Gas Turbine (CCGT)
- Non-SoC: Construction of wind and solar projects in Mainland China of HK\$525 million; and power station enhancement works mainly at Yallourn, higher decommissioning assets on higher remediation costs and enhancement of customer service facilities in Australia totalling HK\$2,221 million

- Upon the expiry of the Paguthan's PPA, the residual value of the plant was transferred from finance lease receivables to fixed assets

Analysis of Total Balances at Year Ends

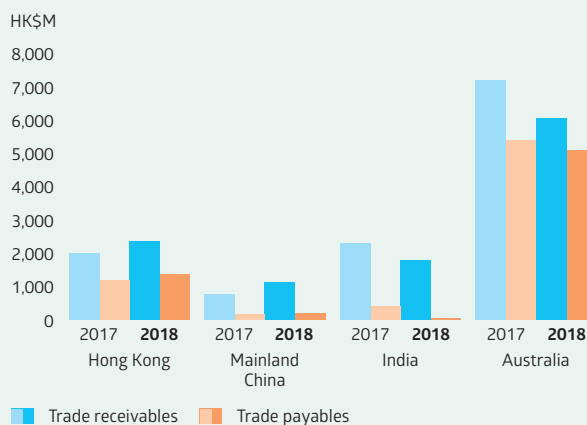


Trade and Other Receivables (2018: HK\$15,917 million; 2017: HK\$15,427 million; \uparrow 3.2%)

Trade and Other Payables (2018: HK\$19,061 million; 2017: HK\$18,978 million; \uparrow 0.4%)

- Hong Kong: Stable trade debtors, higher capex creditors in line with more capital works at 2018 year end
- Mainland China: Higher national subsidy receivables after Jinchang Solar acquisition and more renewable projects commissioned since the second half of 2017; dividend receivable from GNPJVC offset by receipt of consideration from CGN Wind divestment; payable balances remained at similar level
- India: Remaining consideration receivable from the sale of CLP India (HK\$1,452 million) included in other receivables and a provision made for deemed generation trade receivable in 2018; lower creditors balances due to settlement of construction cost payable of Veltor Solar
- Australia: Decreases in balances from lower AUD closing rate; lower receivable and payable balances in line with lower sales despite higher pool purchases payable at year end 2018 on higher prices

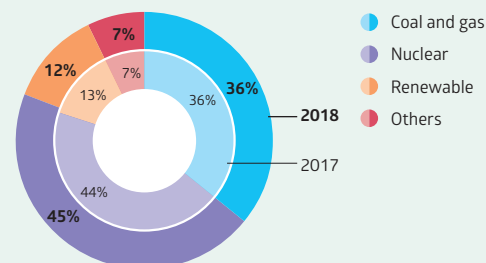
2-Year Trade Receivables / Payables by Region



Interests in Joint Ventures and Associates (2018: HK\$17,420 million; 2017: HK\$18,464 million; ↓ 5.7%)

- Renminbi translation losses on our investments in Mainland China;
- Reclassification of Jinchang Solar of HK\$216 million from joint venture to subsidiary upon acquisition of remaining 49% interest;
- Scheduled repayment of shareholder's loan by ShenGang Pipeline; partly offset by
- Further equity injection for project development in Vietnam.

Interests in Joint Ventures and Associates by Asset Type



Derivative Financial Instruments

Assets: 2018: HK\$1,799 million; 2017: HK\$2,093 million; ↓ 14.0%;

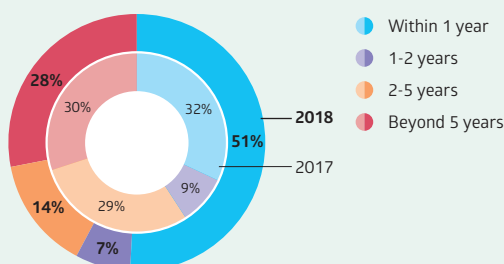
Liabilities: 2018: HK\$2,809 million; 2017: HK\$2,429 million; ↑ 15.6%

As at 31 December 2018, the Group had gross outstanding derivative financial instruments which amounted to HK\$103.4 billion. The fair value of these derivative instruments was a net deficit of HK\$1,010 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 increase in net fair value losses were mainly because of unfavourable mark-to-market movements of cross-currency interest rate swaps under fair value hedges (due to increase in HKD floating rates) and changes from net gain to net loss of energy contracts (due to unfavourable movements in forward electricity and oil prices).

	Notional Amount		Fair Value Gain / (Loss)	
	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M
Forward foreign exchange contracts and foreign exchange options	26,898	27,203	267	308
Interest rate swaps and cross currency interest rate swaps	32,922	34,902	(1,056)	(818)
Energy contracts	43,561	18,878	(221)	174
	103,381	80,983	(1,010)	(336)

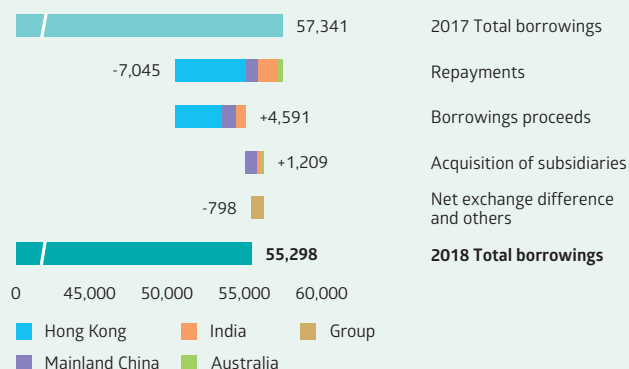
Maturity Profile



Bank Loans and Other Borrowings (2018: HK\$55,298 million; 2017: HK\$57,341 million; ↓ 3.6%)

- Major financing activities during the year including:
 - Hong Kong: Issued a HK\$1 billion 15-year fixed rate Medium Term Note and arranged a RMB800 million bank loan for refinancing existing debts at more competitive rates
 - India: Scheduled repayments by existing projects offset by arrangement of new USD bank loans for Veltoor Solar during the year
 - Australia: Early repayment of US\$30 million (HK\$235 million) private placement bond to reduce finance cost and cancellation of certain bank loan facilities

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



- The net debt to total capital ratio was reduced from 27.8% to 25.5% with strong operating cash flows and receipt of proceeds from the sale of interests in CLP India and CGN Wind
- In May and June, Standard & Poor's (S&P) and Moody's affirmed all the credit ratings of CLP Holdings, CLP Power Hong Kong and CAPCO with stable outlooks. In addition, S&P affirmed the credit rating of EnergyAustralia with stable outlook in August.

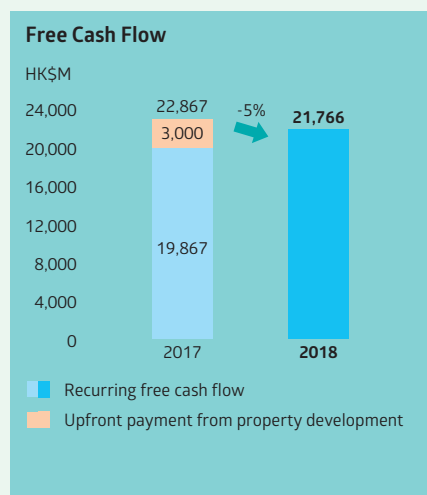
More details can be found on "Financial Capital".

Cash Flow Analysis

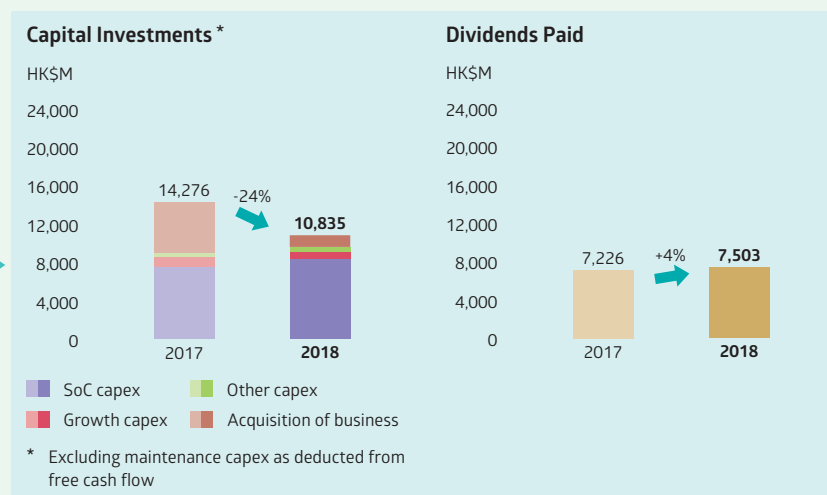
Free Cash Flow (2018: HK\$21,766 million; 2017: HK\$22,867 million; ↓ 4.8%)

- Excluding the one-off receipt of HK\$3 billion from Argyle Street joint development project in 2017, free cash flow increased HK\$1,899 million because of:
 - Hong Kong: Favourable working capital movements in 2018 offset by higher fuel cost under-recovery from customers
 - Australia: Strong operating cash inflows driven by improved EBITDAF offset by higher income tax paid
- Capital investments include additions to fixed assets, leasehold land and land use rights, investment property and intangible assets, investments in and advances to joint ventures and associates, and acquisition of business. Major items include:
 - HK\$8.4 billion of SoC capex (SoC capex) to enhance transmission and distribution networks, generation facilities and customer services in Hong Kong
 - HK\$687 million of growth capital expenditure (growth capex) related to our renewable projects in India and Mainland China
 - Acquisition of business mainly related to acquisitions of Ecogen and Jinchang Solar (2017: Yangjiang Nuclear)

Cash Inflow

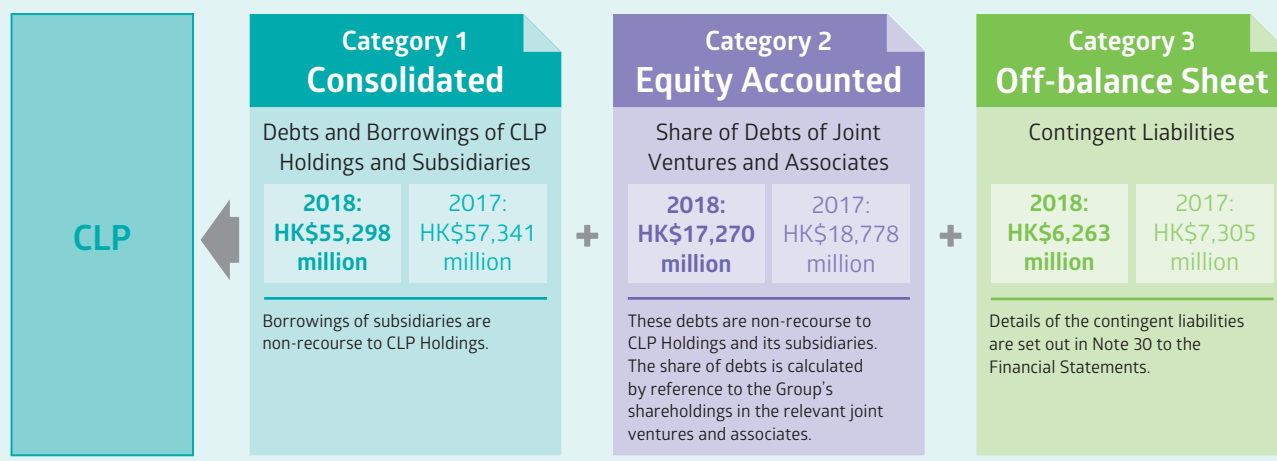


Cash Outflow



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:



A Broader Perspective

	2018	2017	2016	2015	2014
Performance Indicators					
EBITDAF ¹ , HK\$M	28,571	27,662	25,355	31,267	23,442
ACOI ² , HK\$M	20,998	19,925	18,128	17,929	17,232
Operating earnings, HK\$M	13,982	13,307	12,334	11,519	10,062
Total earnings, HK\$M	13,550	14,249	12,711	15,656	11,221
Return on equity, %	12.4	13.8	13.3	17.3	12.8
Operating return on equity ³ , %	12.8	12.9	12.9	12.7	11.5
Financial Health Indicators					
Undrawn facilities, HK\$M	24,059	25,924	23,986	29,685	32,533
Total borrowings, HK\$M	55,298	57,341	51,646	55,483	67,435
Fixed rate borrowings to total borrowings, %	53	52	57	57	58
FFO interest cover ⁴ , times	13.4	14.6	14.0	9.2	9.1
FFO to debt ⁵ , %	47.2	48.6	47.3	34.2	37.9
Net debt to total capital, %	25.5	27.8	29.5	32.4	38.0
Debt / Capitalisation ⁶ , %	24.7	28.4	28.7	33.3	39.7
Shareholders' Return Indicators					
Dividends per share, HK\$	3.02	2.91	2.80	2.70	2.62
Dividend yield, %	3.4	3.6	3.9	4.1	3.9
Dividend cover ⁷ , times	1.8	1.8	1.7	1.7	1.5
Total returns to shareholders ⁸ , %	9.6	8.4	6.4	8.4	8.8

Readers can refer to "Shareholder Value" on pages 23 to 27 for more analysis on shareholders' return.

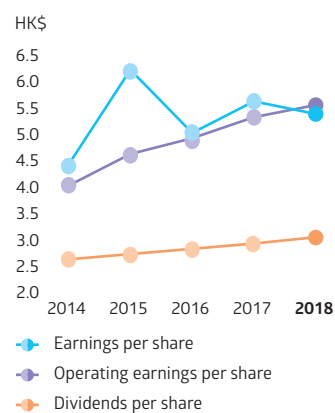
Cash Flows and Capital Investments

FFO ⁴ , HK\$M	26,584	26,506	25,353	20,994	23,431
Free cash flow ⁹ , HK\$M	21,766	22,867	22,485	17,290	19,027
Capital investments, HK\$M	12,045	15,270	10,866	11,967	25,824

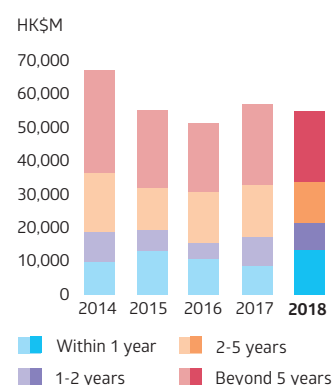
Notes:

- 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.
- 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.
- Operating return on equity = Operating earnings / Average shareholders' funds
- FFO (Funds from operations) = Cash inflow from operations. FFO interest cover = FFO / (Interest charges + capitalised interest).
- FFO to debt = FFO / Average debt. Debt = Bank loans and other borrowings.
- Capitalisation = Closing share price on the last trading day of the year x number of issued shares at the end of the year
- Dividend cover = Operating earnings per share / Dividend per share
- Total returns to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.
- Free cash flow = FFO - income tax paid + interest received - interest and other finance costs paid - maintenance capital expenditure paid + dividends received from joint ventures and associates

Earnings and Dividends Per Share



Loan Balance - Maturity



Note: The maturities of revolving loans are in accordance with maturity dates of the respective facilities instead of the loan drawdown tenor

Capital Investments

