We are striving to deliver on our investments, decarbonise, digitalise our operations and keep innovation at the heart of our ongoing development, all while continuing to pursue excellence in our existing operations.

Richard Lancaster
Chief Executive Officer

Our 2019 results reflect the changes, challenges and opportunities in our business. This period of transition is being managed for the best long-term outcome, with the aim of ensuring that we are fit for the future and well-positioned for ongoing operational and financial stability across the Group.

Notable results from 2019 include:

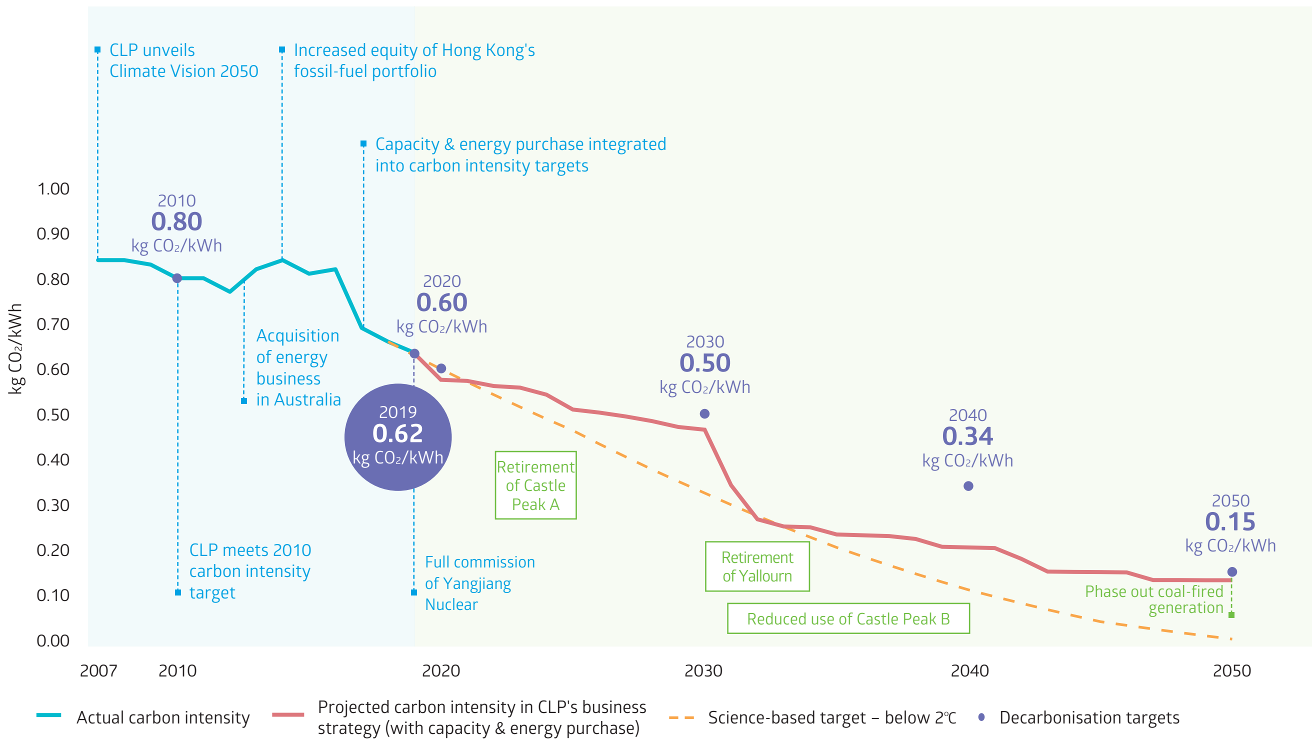
- In Hong Kong we delivered good progress on our Development Plan, while earnings were subject to a full-year effect of the lower permitted rate of return under the new Scheme of Control Agreement;
- Our low-carbon generation portfolio in Mainland China brought us stable and reliable results;
- In India, 2019 saw our first investment in transmission assets, representing a diversification in a marketplace that has great potential;
- In Australia issues with asset availability, fierce competition and regulatory interventions impacted profitability and significantly reduced the value of goodwill on our balance sheet; we adjusted our retail business to the new regulated pricing regime and addressed significant constraints on our major generation units; and
- We launched a revised version of our Climate Vision 2050, further updating our strategy for existing and future investments.

Against the backdrop of accelerating climate change and its impacts, decarbonisation continued to be a key priority of CLP in 2019. The updated Climate Vision 2050 is the foundation stone of our business strategy, giving us a roadmap for deep decarbonisation aligned with local policies in each of our markets, and demonstrating our desire to contribute to the world's journey towards a sustainable energy future.

As we transition to a Utility of the Future, we are further digitalising our operations which is another strategic priority of CLP. We are focused on opportunities that will deliver robust performance from today's asset base well into the medium term in addition to sustainable results from low-carbon solutions in the longer term. In the past year, these strategies continued to steer us forward amid the fluctuations in both our business and operating environment.

Full report of Climate Vision 2050 can be found on our website.

CLP Group's Carbon Intensity



Note: The plant retirement timeframes are indicative only.

Hong Kong

Electricity sales in Hong Kong rose 1.8% in 2019 due to higher demand from most customer segments. Operating earnings decreased 13.0% to HK$7,448 million largely due to the lower permitted rate of return. The reset in our earnings was fully anticipated and we now have a predictable earnings trajectory as we continue with the critical investments under the current Development Plan.

We are a partner to Hong Kong and in 2019, we continued to progress projects with a clear strategy of decarbonisation, digitalisation and driving greater energy efficiency. Our approach to reducing coal from our generation mix is supported by further investment in Black Point Power Station where we expect to commission an additional gas-fired unit in the coming months and another unit in 2023. We are also making progress with the construction of the offshore LNG terminal. This will further improve Hong Kong's energy security with direct access to international sources of natural gas, diversifying Black Point's current supply. We are on track to play our part in meeting the Hong Kong Government's target of increasing the amount of gas-generated electricity in Hong Kong to around 50% by 2020.

We responded to the Council for Sustainable Development's public engagement on a long-term decarbonisation strategy. Hong Kong is a high-density urban environment with great electricity needs. The Government's energy policy objectives – ensuring the community's needs are met safely, reliably, efficiently and at reasonable prices, with minimal environmental impact – are fully aligned with CLP's purpose.

Mainland China

Our non-carbon portfolio continues to be the main driver of growth in Mainland China. The Daya Bay and Yangjiang nuclear plants provided stable earnings while our renewable energy assets contributed higher earnings from our diversified portfolio of hydro, wind and solar facilities. Lower coal prices and higher output supported an increased contribution from Fangchenggang Power Station. Overall, operating earnings for the year increased 5.3% to HK$2,277 million.

We expanded our renewable portfolio through the acquisition of a 100% stake in the 36MW Meizhou Pingyuan solar plant, the commissioning of the 49.5MW CLP Laizhou II wind farm and continued construction of the 50MW Laiwu III wind project, although cash flow of our renewable energy projects was adversely affected by the significant delay in subsidy payments. Supported by opportunities offered by digitalisation and market reform, we are also expanding into other parts of the electricity value chain. Having previously announced our award of a contract to deliver an incremental distribution network at a technology zone at Fangchenggang, we are pleased to see that the project started providing electricity supply services to customers in the area in January 2020. In the meantime, we continue to explore development opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area.

India

In India our partnership with Caisse de dépôt et placement du Québec and the expiry of the long-term power purchase agreement for the Paguthan power plant have reduced our operating earnings by 54.0% to HK$263 million. With the strategic support and additional resources provided by the partnership, CLP India agreed to acquire three transmission assets across the country in 2019. Our renewable energy investment strategy has now been running in India for over a decade and in 2019 we bid successfully in a government auction for a 250MW wind project in the state of Gujarat, which is set to be the biggest wind farm across the CLP Group once commissioned in 2021. During the year we saw a marked increase in delay in payments for renewable energy projects from local distribution companies experiencing financial hardship.

There is a need for a strengthened grid in India to support the country's transition to cleaner forms of energy, as well as the overall system stability. We are pleased to be further developing our focus here while also leveraging the opportunities to build a more comprehensive, synergised portfolio of business.

Southeast Asia and Taiwan

Operating earnings in the market rose 106.8% to HK$335 million due to good performance of the Ho-Ping coal-fired power plant and the Lopburi solar plant.

As part of our strategic decision stated in Climate Vision 2050 not to add any new coal-fired generation assets to our portfolio, we have decided to exit from two legacy coal developments in Vietnam. In the future our efforts in the country will focus on investment opportunities in renewable generation.

Australia

A challenging year in Australia was marked by reduced performance at the Yallourn and Mount Piper power stations caused by safety works and coal supply issues respectively. The implementation of new energy price regulations by national and regional governments also had a significant impact on results. Operating earnings therefore reduced significantly by 52.6% to HK$1,566 million.

While we do not expect the uncertainty of the regulatory environment to ease in the short term, we are managing the change of circumstances strategically. EnergyAustralia invested to strengthen the reliability of its existing assets including a more diversified supply of coal for Mount Piper and enhancements to safety and other operational systems at the Yallourn power station. Yallourn has the capacity to supply two million homes every day and employs hundreds of people. We plan to run the plant to 2032 or as long as policy and regulation permit. To assist system planning and the local community, we have committed to giving at least five years' notice of its closure where circumstances remain within our control.

As well as continuing to optimise our existing portfolio, we are playing our part in seeking to build a modern, cleaner energy system for the country. Absorbing high volumes of renewables into the grid brings the challenge of supply volatility and the need for consistent base load. Therefore EnergyAustralia has made capacity purchases of renewable energy and is exploring the addition of flexible generation such as the possibility to expand the gas-fired power station at Tallawarra and the potential of pumped hydro.

Putting customers at the centre of our business and the energy system, we continued to improve customer experience during the year and leveraged the introduction of safety-net electricity prices to launch new products and services that are simpler and lower-cost.

Digitalising our Business

As a Group, our business spans across the entire energy value chain, all aspects of which are increasingly supported by smart energy services. To fully unlock the potential of the digital transformation, we need to develop customised strategies and solutions for each of the markets in which we operate.

The launch of Smart Energy Connect is a prime example of our efforts in 2019. As the first online energy app store in Asia, it offers a range of innovative and practical applications to help businesses and organisations in the region manage energy use in a greener and smarter way.

In our retail businesses in Australia and Hong Kong we have further invested in operations and customer service by digitalising our service operations. In Australia this enables an improvement in customer experience to make it easier for us to attract, acquire and retain customers.

With a high population density and large concentration of skyscrapers, Hong Kong is an excellent testbed for energy innovation. In 2019, we took Free Electrons, the global energy start-up accelerator programme, to Hong Kong for a week-long event filled with sharing and pitching of fresh ideas. EnergyAustralia also continued to partner with world-leading accelerator Startupbootcamp to work with some of the most innovative startups in the energy space.

Looking into the Future

Looking ahead, we will continue to manage our operations and make investments as guided by our strategic focuses of decarbonisation and digitalisation. Opportunities are emerging from an increasing number of organisations in the region that are committing to procure renewable energy. Underpinned by our Climate Vision 2050 as well as both technical and commercial excellence, we are well placed to maximise these opportunities at the heart of the global energy transformation.

In Hong Kong, our long-term vision and confidence remain undimmed and we will continue to focus on delivering our ambitious Development Plan. These investments in Hong Kong will underpin the performance of the business in the years ahead and, in the near term, will take up the bulk of the Group's capital expenditure. This, together with our dividend policy and prudent approach to financing, will limit our resources to invest in other areas over this period, but we will continue to prudently pursue opportunities that help us move towards a digital, low-carbon future.

As 2019 drew to a close and the new year commenced, nowhere was the risk of a changing climate more vividly displayed than by the bushfires in Australia. The scale, magnitude and extent of damage of these fires are certainly galvanising attention to the urgency for climate actions. At the same time, they highlight the need for a strong and resilient power system, and an acceleration of policy changes. Australia has lived with bushfires for years, and so too Hong Kong has lived with typhoons. However, the catastrophic bushfires in Australia and Super Typhoon Mangkhut that hit the region in 2018 have taken these climatic events to an unprecedented level. As the physical impact of these extreme events become clear, so too are the risks to businesses. When we formulate measures to reinforce our power systems, we need to plan for very extreme scenarios and make sure that power systems can withstand unprecedented circumstances. We also need to accelerate our transition towards a low-carbon world while continuing to deliver safe, reliable and affordable power to the communities we serve.

All markets go through transition periods and any country with a legacy of coal generation assets will require its private sector energy partners to be ready for the challenge of decarbonisation. In Australia, India and Mainland China, much like in Hong Kong and the other markets in which we operate, we see ourselves as a ready, willing and highly capable partner in the transition to a low-carbon energy future.

In the midst of all these changes, a word on our people. As the Chairman mentioned, we were deeply saddened to report a fatality of an employee of a subcontractor in Hong Kong this year. It is a reminder that we must continue to relentlessly develop our efforts to understand the cause of all accidents and prevent them. Above all, it is my colleagues working tirelessly every day who make CLP what it is. Together we steer this business through changes and challenges so that we can continue to serve the communities across Asia Pacific who place great trust in us.

Going through the transition in 2019 has not been easy and our results are a stark reminder of the disruption in our industry. Nevertheless, we are striving to deliver on our investments, decarbonise, digitalise our operations and keep innovation at the heart of our ongoing development, all while continuing to pursue excellence in our existing operations. My thanks go to my colleagues for everything they are doing to achieve that and together we go forward.

Richard Lancaster
Hong Kong, 24 February 2020

Q

It is increasingly obvious that vast numbers of young people like me care deeply about the challenges facing the environment and are concerned about the impact of climate change not just on their lives today but on the lives of their children and grandchildren. We have seen students leave their school desks for a day to try to draw attention to what they see as a growing crisis. Many see energy companies as part of the problem, not part of the solution. What do you say to them?

Ms Lui Tin Long
Secondary five student and recipient of CLP Centenary Scholarship 2019

A

I totally share your concern and I can assure you, and young people like yourself, that not only does CLP care and take this issue very seriously, we absolutely see ourselves as part of the solution. There is no doubt that greenhouse gas levels in the atmosphere are increasing due to human activity, bringing damaging changes to our climate as a result. CLP was the first Asian-based power company to set itself targets for reducing the carbon intensity of its business activities and has been strengthening those targets on an ongoing basis. As you will read in this Annual Report, we have stopped investing in new coal-fired power plants and will phase out our existing ones by 2050. But the transition cannot happen overnight. It will need investment to build new carbon-free power plants and new transmission systems to connect them to cities. CLP is helping to make this happen. We must plan carefully to ensure the lights stay on during this transition period and there would be reliable electricity supply for the communities we serve. Hospitals, transport systems and millions of homes and businesses depend on electricity. That's why CLP advocates careful and coordinated planning among all sectors of society to manage this energy transition well. At CLP, we are not only passionate about making this change, we are contributing our expertise and experience as part of the solution. It is your future – and we are with you.

Richard Lancaster
Chief Executive Officer