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Richard Lancaster

Chief Executive Officer

2020 was a challenging year as the COVID-19 pandemic profoundly affected every company, every community, and every individual. During this time, our priorities were to maintain a reliable power supply, ensure business continuity and care for our colleagues, customers and the communities. We also remained focused on progressing key infrastructure projects, including the development of two Combined-Cycle Gas Turbines (CCGTs) and an offshore LNG terminal in Hong Kong, and the ongoing evolution of our strategy. Our 2020 results reflect our resilience as a business.

The pandemic reinforces the importance of paying attention to the broader issues of sustainability in business. Climate change is one of the greatest challenges facing the energy sector as we know it. With so much of the world increasingly focused on decarbonisation, and with a growing awareness of previously set targets, we are mindful that the time horizons for change are shorter than they may first seem.

To succeed in an increasingly complex energy industry, a utility like CLP will need to be more responsive, resilient and agile. We have long believed in the value and strength that comes from diversity, and our evolving approach to our home and core markets is a continuation of this philosophy.

While Hong Kong remains at the heart of our business, Mainland China is another key market for the CLP Group. Together with India and Australia, this provides diversity to our portfolio. Our objective for EnergyAustralia is to strengthen our position as a leading integrated, customer-centric energy supplier with a more flexible fleet of generation assets to supply the changing needs of our mass market and commercial customers. In India, we aim to further expand our portfolio focusing on renewables and low-carbon opportunities. In Mainland China, we will continue to focus on our recent investments in renewables and nuclear. Our strategy for the Greater Bay Area (GBA) is to pursue more diversified opportunities as a natural extension of our activities in Hong Kong.



CEO Richard Lancaster speaking at the 2020 Asian Financial Forum in Hong Kong on how to achieve a profit with purpose.

Hong Kong

COVID-19 had a severe impact on Hong Kong. Our priorities were to maintain a safe and reliable service, and support our own people and customers. The modest fall in electricity sales as a result of more subdued economic activities was largely balanced by increased residential consumption as more people worked from home and the hotter summer months. In the second half of the year demand returned to something closer to normal expectations. During the year, operating earnings of Hong Kong's electricity business increased 5% to HK\$7,818 million.

To cope with the pandemic, we rolled out personal protective equipment to our teams, further diversified procurement to build resilience into our supply chain and moved to safer ways of working. We were able to achieve the target of generating about 50% of our electricity from gas, boosted by the new 550MW CCGT at Black Point Power Station. Ground has now been broken on a further unit on the same site.

Good progress has been made on the offshore LNG terminal with construction work in the sea commenced in December. Natural gas remains an important part of the territory's energy mix for the medium term and this facility will enhance Hong Kong's energy security and the sustainability of supply.

CLP has a key role to play in Hong Kong's decarbonisation journey. We are seeing a clear shift from incremental improvements to an acceleration of the desire for change. This will create further opportunities given our strong existing position in the market. Offshore wind is one option for local clean energy and we will look carefully at the

business cases as they emerge. In 2020, the Hong Kong Government announced a target to be carbon neutral by 2050. We are committed to working with the Government and all stakeholders to contribute our power expertise to discussions on how all sectors together can make this a reality.

Mainland China

Electricity demand was affected by lower industrial activity as a result of COVID-19 in the earlier part of 2020 before rebounding strongly as the Chinese economy started picking up. In this environment, the performance of our diversified portfolio held up well. Operating earnings for 2020 were HK\$2,233 million, a decrease of only 2% when compared with 2019.

Safety is one of our core values and I am delighted that our nuclear projects won several prestigious awards for their construction and safety standards. Nothing will ever be more important than the safe operations of all our sites and external recognition of our approach is a reward for the hard work of our teams.

During the year, we were pleased to commission phase III of the Laiwu wind farm in Shandong province. This took the total capacity of the project to 149MW, making it the largest operational wind project across the CLP Group. We also committed to invest in phase III of the Qian'an wind project (100MW) in Jilin province – which will be CLP's first grid-parity project in the country. Our aspiration is to continue to grow our portfolio of renewable energy projects in Mainland China but we will continue to take a selective approach to our evaluation of these opportunities.

CLP has been operating in the GBA for many years and we have established partnerships including those with China Southern Power Grid Co., Ltd and China General Nuclear Power Corporation. The GBA presents significant opportunities thanks to the size of its economy and its part in China's journey to carbon neutrality by 2060.

There is a need not just for individual renewable projects but for the integrated provision of supporting infrastructure and energy solutions. The evolution of the energy system in the GBA could bring new opportunities across the electricity supply chain – from generation assets, transmission and distribution to new business models around energy-as-a-service.

India

India was one of the countries hardest hit by COVID-19 and it was not without impact on the operations of CLP India. During this difficult period, the Jhajjar coal-fired plant nonetheless performed steadily. While CLP India's wind portfolio experienced unfavourable weather conditions, its solar and transmission assets showed good performance. Our acquisition of two solar farms in Telangana has brought us an additional 80MW capacity and both projects performed well. During the year, operating earnings attributable to CLP decreased 33.5% to HK\$175 million.

Meanwhile, we were particularly delighted to receive further recognition of our efforts on safety including an award from the Royal Society for the Prevention of Accidents in the UK for Jhajjar's performance.

Our strategy in India remains focused on pursuing opportunities in non-carbon businesses such as renewable energy projects and transmission assets. During 2020, as the country adjusted to disruptions associated with COVID-19, we experienced delays to some regulatory approvals. In the context of the Government's new rules on foreign investments, we will continue to work with the administration to facilitate our future investments.

Australia

Never has our focus on people been more important than in Australia in 2020 where the devastating impact of bushfires through late 2019 and early 2020 was followed soon after by COVID-19.

We have proactively supported both residential and small business customers with initiatives ranging from freezing debt collection to dedicated payment plans. While we cannot solve all the challenges that people face, we can play our part in relieving some of the burdens where appropriate.

Australia's COVID-19 lockdown measures, some of which fell disproportionately in areas where we operate, led to the country's first economic recession in almost 30 years and inevitably affected our results. The National Electricity Market experienced a significant decline in wholesale prices driven by increased renewable generation and changing energy consumption patterns due to the pandemic. This, together with lower generation while we undertook major, planned maintenance programmes, led to reduced earnings from our Energy business.

Meanwhile, the ongoing impact of retail price regulation and intensified competition in the retail markets, including from newer retailers, put significant pressure on margins in our Customer business. Earnings at an underlying operational level therefore saw a decrease. However, once non-cash changes in the fair value of our energy hedging contracts are included, EnergyAustralia recorded an increase in operating earnings of 8% to HK\$1,690 million.

The new initiatives introduced by the State and Federal Governments in 2020 show that Australia's energy transition is gaining momentum and the shifts will be potentially significant for the industry. EnergyAustralia is committed to playing a constructive role in this accelerated energy transition in close dialogues with Governments and the communities.

Unlocking the Benefits of Digitalisation

In 2020, as large parts of the world were grounded to a near standstill by the impact of COVID-19, we put in place special work arrangements to strengthen the protection of our employees. The conscious decision we made a few years ago to enhance our information technology infrastructure now allowed colleagues to switch between remote working and mixed mode working as social distancing rules evolved.

Our ongoing investments in digitalisation also supported our efforts to deliver more user-centric and smart energy services to customers. In Hong Kong, we rolled out an upgraded mobile app that brings to our customers a host of new and easier functions. The app saw a big jump in both downloads and usage in 2020 as a growing number of people preferred remote services during the pandemic. As we moved further along the digitalisation path, we are mindful of greater exposure to cybersecurity-related risks and are therefore stepping up efforts to enhance our cybersecurity.

Since its launch in 2019, Smart Energy Connect, Asia's first online energy app store, has helped more businesses and organisations improve energy efficiency and automation with its offering of energy management solutions. In the post-pandemic world, the digitalisation of energy services will be of particular importance as businesses worldwide look to boost operational resilience.

Building a Sustainable Business for the Future

This decade has experienced a profoundly challenging first year, but with the increasing pace of decarbonisation there is a growing depth and breadth of opportunity.

With a clear need for new infrastructure, the 2050 deadline under the Paris Agreement is now less than 30 years away meaning an acceleration in initiatives is called for. For CLP, we have achieved the 2020 carbon intensity targets laid out in our Climate Vision 2050. We will be reviewing and strengthening our climate targets within this year as planned.

Our foundation of sound governance, risk management and taking responsibility for our people and communities gives this business a strong platform for success. We have seen this year the benefits of strong business continuity planning. The impacts of COVID-19 cannot be ignored but a time will come when we look back on these times as a memory.

Throughout the year we have continued to invest in our people. We delivered health and wellbeing programmes, including a focus on mental health, to our teams. We are also investing in our next generation of talent, providing opportunities for the younger generation. In Hong Kong,

our graduate internships are equipping them with skills and expertise for them to develop and prosper. Every decision we make is delivering for today but also laying the foundation stones of the young people's future.

CLP has a proud history of 120 years. In that time, our territories have experienced many extraordinary ups-and-downs and we have evolved with them. Our anniversary – this milestone – highlights our experience and resilience but also reminds us that we are now renewing once more.

The team of today has worked incredibly hard in 2020. On behalf of the Chairman and the whole Board, I sincerely thank them. While we earnestly hope that 2021 will prove itself to be an easier year, we remain alert. We are ready to pursue new opportunities in this fast-changing world, as well as ensuring we continue to build a sustainable business apt for the future.

Richard Lancaster
Hong Kong, 22 February 2021

Increasing concerns about global warming have prompted undertakings by many nations to reduce carbon emissions and adopt green technologies. As a shareholder, I wish to learn more about CLP's plans to prepare for future changes in the energy market. What do you see as the biggest difficulties?



Ms YEUNG Jane Hane
Shareholder

This is a great question and there is no doubt that there are challenges. Our industry is undergoing a seismic shift and will change beyond recognition. To give an example of how fundamental this change is just reflect on Alexander Graham Bell's invention of the telephone over a century ago. If you showed him a telephone of today – a smartphone – he wouldn't recognise it. By contrast, Thomas Edison who developed electric power distribution and of course invented the lightbulb around the same time would still recognise many of his inventions in the power industry today. But soon our industry will no longer be recognisable to Edison. It too, like the telecoms industry, will have transformed. It's a tremendously exciting time for all of us working in energy. And the answer to your question is that we must put our customers at the very heart of our strategy. If we do, we will be able to play a key role in the energy transition and find many new opportunities that will allow us to prosper.

Richard Lancaster
Chief Executive Officer

