

CLP CLIMATE ACTION FINANCE FRAMEWORK

DNV·GL

DNV GL SECOND PARTY OPINION

Scope and Objectives

CLP Holdings Limited (henceforth referred to as "CLP") is one of the largest investor-owned power businesses with presence in Hong Kong, Mainland China, India, Southeast Asia, Taiwan and Australia. Its diversified portfolio of generating assets uses a wide range of fuels including coal, gas, nuclear and renewable sources. As on 31 December 2019, CLP's portfolio comprised 19,238 megawatts ("MW") of equity generating capacity and 4,777 MW of capacity purchase, among which 14% were from renewable sources on equity basis. CLP's business also includes transmission and distribution, and electricity retail activities. It has approximately 90 assets with over 16,200 kilometres of transmission and distribution lines, and energy retail activities that serve over 5.10 million electricity customer accounts. CLP's majority owned business units are intending to raise climate action finance including bonds, loans and other forms of finance for the purpose of financing capital expenditure to meet its objectives as outlined in the updated CLP's Climate Action Finance Framework (CAFF).

CLP first published the CLP CAFF in July 2017. This has been updated in June 2020 to reflect the increased climate related commitments made by CLP in its updated Climate Vision 2050 published in December 2019 and to reflect the broader range of financial transactions that CLP is considering raising funding for its climate actions.

There are two types of CLP Climate Action Finance Transactions (CAFTs) that can be undertaken under the CAFF:

- Energy Transition Finance Transactions; and
- New Energy Finance Transactions.

DNV GL Business Assurance Services Limited (henceforth referred to as "DNV GL") has been commissioned by CLP to provide an eligibility assessment on the updated CAFF. Our methodology to achieve this is described under 'Work Undertaken' below. We were not commissioned to review individual bonds or loans or assets, provide independent assurance or other audit activities.

No assurance is provided regarding the financial performance of the Climate Action Bonds/Loans, the value of any investments in the Climate Action Bonds/Loans, or the long-term environmental benefits of the transactions. Our objective has been to provide an assessment that the CAFF has met the criteria established on the basis set out below.

Responsibilities of the Management of CLP and DNV GL

The management of CLP has provided the information and data used by DNV GL during the delivery of this review. Our statement represents an independent opinion and is intended to inform CLP's management and other interested stakeholders in the CAFF as to whether the established criteria have been met, based on the information provided to us. In our work, we have relied on the information and the facts presented to us by CLP. DNV GL is not responsible for any aspect of the projects or assets referred to in this opinion and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV GL shall

not be held liable if any of the information or data provided by CLP management and used as a basis for this assessment were not correct or complete.

Basis of DNV GL's opinion

We have adapted our green bond and green loan eligibility assessment methodology to create CLP specific CAFF Eligibility Assessment Protocol (henceforth referred to as "Protocol") - see Schedule 2. Our Protocol includes a set of suitable criteria that can be used to underpin DNV GL's opinion. The overarching principle behind the criteria is that there are environmental benefits for the investments to be funded under the CAFF.

As per our Protocol, the criteria against which the CAFF has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria are guided by the requirement that an issuer of a bond or loan must use the funds raised to finance eligible activities. The eligible activities should produce clear environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a bond or loan should outline the process it follows when determining eligibility of an investment and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria are guided by the requirements that a bond or loan should be tracked within the issuing organization, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors should be made of the use of bond proceeds and that quantitative and/or qualitative performance indicators should be used, where feasible.

Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by CLP in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us. The work undertaken to form our opinion included:

- Creation of a CLP specific protocol, adapted to the purpose of the CAFF, as described above and in Schedule 2 to this Assessment;
- Assessment of documentary evidence provided by CLP on the CAFF and supplemented by a high-level desktop research. These checks refer to current assessment best practices and standards methodology;
- Discussions with CLP representatives, and review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria.

Our opinion as detailed below is a summary of these findings.

Findings and DNV GL's opinion

DNV GL's findings are listed below:

1. Principle One: Use of Proceeds.

CLP proposes to raise climate action finance including bonds, loans and other forms of finance (CLP Climate Action Finance Transactions or CAFTs) and to use the proceeds of those CAFTs to invest in projects that are consistent with their strategy to respond to the climate change challenges. This strategy is consistent with the CLP group's investment strategy.

CLP has confirmed there will be two types of CLP CAFTs that can be made under the CAFF:

i. Energy Transition Finance Transactions

The proceeds of Energy Transition Finance Transactions will be applied to finance or refinance, in whole or in part, investments in: 1) the building of natural gas fired power plants and associated enabling infrastructure including facilities required for the receipt and delivery of gas to the plants, where the opportunities to develop renewable energy is limited; and 2) the conversion of coal fired power plants, and the facilities or modifications associated with such conversion, which, in both cases, will result in carbon emission no more than 450gCO₂/kWh at baseload.

DNV GL notes that gas is internationally recognised as a "bridging fuel" between coal and renewable energy where local renewable energy generation conditions are unfavourable and relevant regulatory frameworks are aligned with the Paris Climate Agreement.

CLP's Climate Vision 2050¹ contributes to the implementation of Hong Kong's Climate Action Plan 2030+², which commits to alignment with the Paris Climate Agreement and sets targets to reduce both absolute (26-36% reduction) and intensity-based (65-70% reduction) carbon emissions from a 2005 baseline by 2030 and includes the policy to increase the share of gas in the Hong Kong's fuel mix for power generation to around 50% in 2020. The plan recognises that large-scale commercial renewable energy is restricted in Hong Kong based on current renewable technology due to limited land area, unfavourable terrain and restricted territorial waters. Therefore, for Hong Kong to meet its carbon reduction targets by 2030 it is recognised that gas will act as a "bridging fuel" between the currently heavily coal dependant energy generation state and a low carbon generation state.

On this basis, DNV GL conclude that CLP's Energy Transition Finance Transactions will bring environmental benefits in markets where renewable energy potential is still limited.

ii. New Energy Finance Transactions

The proceeds of New Energy Finance Transactions will be applied to finance or refinance, in whole or in part, investments in:

- i. generation of energy from renewable sources including wind, solar, waste-to-energy, tidal, hydro (<25MW) and biomass energy (using sustainable feedstock sources) and associated assets (including dedicated transmission infrastructure);
- ii. improvements in energy efficiency including smart grid and smart metering systems; and
- iii. low carbon transport infrastructure including dedicated electric vehicle charging infrastructure.

¹ www.clpgroup.com/en/sustainability/our-approach/frameworks-strategies/climate-vision-2050

² www.enb.gov.hk/sites/default/files/pdf/ClimateActionPlanEng.pdf

DNV GL concludes that CLP's New Energy Finance Transactions fall within the broadly defined categories of renewable energy and sustainable transport.

2. Principle Two: Process for Project Evaluation and Selection.

The Eligible Climate Action Projects within the CAFF Portfolio will be dynamic and change over time depending on the investment and expenditure priorities of CLP. CLP Group Business Units will make their own determination as to whether they wish to issue CAFTs under the CLP CAFF, with approvals undertaken by the CLP Group Climate Action Finance Committee (CAFC), made up of senior management including representatives from each of finance, sustainability and legal departments.

DNV GL has reviewed the evidence and can confirm that the eligible project categories and governance framework for project selection meets the eligibility criteria defined by CLP in the CAFF. CLP has outlined the process by which it will allocate funds to eligible projects Governance Team responsible for approving projects.

3. Principle Three: Management of Proceeds.

DNV GL has reviewed evidence showing how CLP plans to trace the proceeds from the Climate Action Finance Transactions, from the time of issuance to the time of disbursement. The CAFF includes a description of the functions and teams responsible for the tracking. The funds raised from the Climate Action Finance Transactions will be credited to dedicated bank accounts/deposits which are normally used for liquidity management purposes of the corresponding CLP Group Business Unit. Each corresponding CLP Group Business Unit will maintain a register to properly keep track of the use of proceeds for each CLP Climate Action Finance Transactions. The register will record the amount and nature of each allocation made and the remaining balance of unallocated proceeds. DNV GL can confirm CLP has adequate processes to ensure traceability of CAFTs.

4. Principle Four: Reporting.

CLP has reported the use of proceeds of CLP CAFTs via its CLP Climate Finance Action Report issued in 2017, 2018 and 2019. DNV GL can confirm that CLP has committed to continue to report on the use of proceeds on an annual basis for any future outstanding issuances via its CLP Climate Finance Action Report. The information reported on will include insights into the total amount of the eligible investments and expenditures, the environmental impacts achieved with the use of proceeds and the balance of unallocated cash and/or cash equivalent. The Climate Action Finance Report will provide further information on projects with allocations from proceeds of CLP CAFTs.

Conclusion

DNV GL notes that the Use of Proceeds of the New Energy Finance Transactions are included in the indicative list of sectors included in the section 1 of Green Bond Principles and Green Loan Principles whilst the Use of Proceeds of Energy Transition Finance Transactions are not. DNV GL concludes that the project selection, funds-tracking and reporting procedures set out in the CAFF meet the criteria established in the Protocol and are aligned with sections 2, 3 and 4 of the Green Bond Principles 2018 and Green Loan Principles 2020.

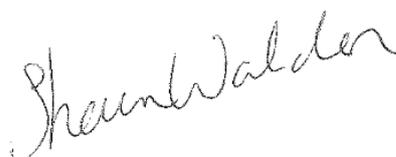
Based on the information provided by CLP and the work undertaken, it is DNV GL's opinion that the CAFF meets the criteria established in the Protocol and there are clear environmental benefits for the investments to be funded under the CAFF.

for DNV GL Business Assurance Services UK Limited

London, 13th June 2020



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About DNV GL

Driven by our purpose of safeguarding life, property and the environment, DNV GL enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight.

With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 12,100 professionals are dedicated to helping customers make the world safer, smarter and greener.

SCHEDULE 1: DESCRIPTION OF CATEGORIES TO BE FINANCED THROUGH THE CAFF

Eligible Climate Action Finance Transaction Categories	Use of Proceeds
<p>Energy Transition Finance Transactions</p>	<p>The proceeds of Energy Transition Finance Transactions will be applied to finance or refinance, in whole or in part, investments in:</p> <ol style="list-style-type: none"> 1) the building of natural gas fired power plants and associated enabling infrastructure including facilities required for the receipt and delivery of gas to the plants, where the opportunities to develop renewable energy is limited; and 2) the conversion of coal fired power plants, and the facilities or modifications associated with such conversion, which will result in carbon emission no more than 450gCO₂/kWh at baseload.
<p>New Energy Finance Transactions</p>	<p>The proceeds of New Energy Finance Transactions will be applied to finance or refinance, in whole or in part, investments in:</p> <ul style="list-style-type: none"> • generation of energy from renewable sources including wind, solar, waste-to-energy, tidal, hydro (<25MW) and biomass energy (using sustainable feedstock sources) and associated assets (including dedicated transmission infrastructure); • improvements in energy efficiency including smart grid and smart metering systems; and • low carbon transport infrastructure including dedicated electric vehicle charging infrastructure.

SCHEDULE 2: CLP - SPECIFIC CAFF ELIGIBILITY ASSESSMENT PROTOCOL

1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
1a	Type of Transactions	The bond/Loans must fall in one of the following categories: <ul style="list-style-type: none"> • Use of Proceeds Bond/Loan • Use of Proceeds Revenue Bond/Loan • Project Bond/Loan • Securitized Bond/Loan 	In addition to reviewing the evidence below, we had detailed discussions with CLP representatives on the criteria required. Evidence reviewed: <ul style="list-style-type: none"> • Climate Action Finance Framework 	We conclude the CAFF appropriately outlines the type of Transactions anticipated under the Framework.
1b	Project Categories	The cornerstone of a Bond/Loan is the utilization of the proceeds which should be appropriately described in the documentation for the security.	In addition to reviewing the evidence below, we had detailed discussions with CLP representatives on the criteria required. Evidence reviewed: <ul style="list-style-type: none"> • Climate Action Finance Framework • Hong Kong Climate Action Plan 2030+ • 2017, 2018, 2019 Climate Action Finance Report 	We conclude that the legal documentation confirms the utilization of proceeds is appropriately described.
1c	Environmental benefits	All designated Project categories should provide clear environmentally sustainable benefits, which, where feasible,	In addition to reviewing the evidence below, we had detailed discussions with CLP representatives on the criteria required. Evidence reviewed:	The evidence reviewed gives us the opinion that the designated Project categories do provide clear environmentally sustainable benefits.

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
		will be quantified or assessed by the issuer.	<ul style="list-style-type: none"> Climate Action Finance Framework Hong Kong Offshore LNG Terminal (EIA) 2017, 2018, 2019 Climate Action Finance Report 2019 Sustainability Report 	

2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
2a	Investment-decision process	The issuer of a Bond/Loan should outline the decision-making process it follows to determine the eligibility of the projects	Evidence reviewed: <ul style="list-style-type: none"> Climate Action Finance Framework 	We conclude that the Framework appropriately describes the process of project selection. The specific issuances will need to be further assessed on a case by case basis.
2b	Issuer's environmental and social and governance framework	In addition to information disclosed by an issuer on its process, criteria and assurances, investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	In addition to reviewing the evidence below, we had several detailed discussions with CLP representatives on the criteria required. Evidence reviewed: <ul style="list-style-type: none"> Climate Action Finance Framework CLP's Climate Vision 2050: A more sustainable world Hong Kong Climate Action Plan 2030+ 2017, 2018, 2019 Climate Action Finance Report 	We conclude that, from the information provided, the CAFF is in line with CLP's approach to managing environmental sustainability. We also note, 'CLP's Climate Vision 2050: A more sustainable world' contributes to the implementation of Hong Kong's Climate Action Plan 2030+, which commits to alignment with the Paris Climate Agreement and sets targets to reduce both absolute (26-36% reduction) and intensity-based (65-70% reduction) carbon

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
			<ul style="list-style-type: none"> 2019 Sustainability Report 	emissions from a 2005 baseline by 2030 and includes the policy to increase the share of gas in the Hong Kong’s fuel mix for power generation to around 50% in 2020.

3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3a	Tracking procedure	The net proceeds of the Transactions should be credited to a sub-account, moved to a sub- portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations.	<p>In addition to reviewing the evidence below, we had detailed discussions with CLP representatives on the criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> Climate Action Finance Framework 	We found that the CLP’s Transactions will be tracked in an appropriate manner and attested to by a formal internal process.
3b	Tracking procedure	So long as the Transactions are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching eligible investments or loan disbursements made during that period.	<p>In addition to reviewing the evidence below, we had detailed discussions with CLP representatives on the criteria required.</p> <p>Evidence reviewed:</p> <ul style="list-style-type: none"> Climate Action Finance Framework 	We conclude that there is a clear process in place for the tracking of the balance taking into account disbursements.

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
3c	Temporary holdings	Pending such investments or disbursements to eligible Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.	In addition to reviewing the evidence below, we had detailed discussions with CLP representatives on the criteria required. Evidence reviewed: <ul style="list-style-type: none"> Climate Action Finance Framework 	We conclude that CLP has in place dedicated bank accounts/deposits which are normally used for liquidity management purposes of the corresponding CLP Group Business Unit.

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV GL Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which Green Bond proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	In addition to reviewing the evidence below, we had detailed discussions with CLP representatives on the criteria required. Evidence reviewed: <ul style="list-style-type: none"> Climate Action Finance Framework 2017, 2018, 2019 Climate Action Finance Report 2019 Sustainability Report 	We can confirm CLP commits to annual reporting within their CAFF and have reviewed evidence of previous reporting. The CAFF sets out what will be reported and where: <ul style="list-style-type: none"> Identity the CLP Group Business Unit that has entered into a Transaction; Type of Transaction entered into; Aggregate amounts of proceeds allocated; Estimation of beneficial impact of the use of proceeds; and The remaining balance of unallocated proceeds at the reporting period end.