CHAIRMAN'S STATEMENT

Underlying Business Profit Increased by 11%

Full year results and dividends

The Group's 2018 audited profits attributable to shareholders amounted to HK$7,636 million (2017: HK$8,319 million), a decrease of 8.2% as compared to 2017 due primarily to a one-off gain on disposal of properties recorded in 2017. The profit contribution of our underlying business, if adjusted for the one-off gain, lower deposit interest income and exchange difference on deposits, would increase by 11% over 2017. Earnings per share was HK$3.58 (2017: HK$3.90).

The Directors will recommend a final dividend of HK$2.03 per share, payable on 30 May 2019 to those persons registered as shareholders on 21 May 2019. This, together with the interim dividend of HK$0.77 per share, takes the total dividend for the year to HK$2.8 per share (2017: HK$16.3 per share including special interim dividends of HK$13.5 per share).

Operating performance

Our businesses around the world are diversified across multiple parameters: we operate in the generation, transmission and distribution sectors in ten major markets, across multiple types of fuel including coal, natural gas, renewables and waste. This robust model enabled us to drive positive results over the year.

While the UK saw continued movement in consumer confidence throughout the year, the performance of all of our regulated businesses was in line with expectation, despite ongoing Brexit negotiations. Our UK businesses once again delivered excellence in customer service, improving on their own outstanding performance records. UK Power Networks and Northern Gas Networks maintained their position in safety, reliability and customer service, while Seabank continued to exceed operational targets. Wales & West Utilities continued its initiatives to connect biomethane to the networks as well as offering smart hybrid heating solution for domestic customers in selected regions which combines gas with electricity to deliver material savings on heating costs and carbon footprint.

In Hong Kong, HK Electric moved into the final year of the existing regulatory regime, the Scheme of Control Agreement (SCA). In preparation for the new SCA period, the company launched a series of initiatives to cut the city's carbon footprint, improve the energy efficiency of Hong Kong's buildings and help underprivileged households save money on their electricity bills.

In Australia, the focus was on improving the agility and flexibility of our distribution networks so that we can adapt the grid for bi-directional energy flow. This will improve the management of electricity generated by consumers with rooftop solar panels, for instance. The CK William acquisition has proved extremely positive for the Group and the full-year contribution has been strong. Australian Gas Networks and Victoria Power Networks secured and completed a number of major capital projects designed to enhance reliability and flexibility. Both SA Power Networks and Victoria Power Networks continued preparations for a regulatory reset.

Our businesses in mainland China, Thailand, Canada, the Netherlands, Portugal and New Zealand are all performing in line with expectations.

In August 2018, the Group entered into an economic benefits agreement with CK Hutchison Holdings Limited. Under the agreement, the Group is entitled to the distributions from a group of mature assets including Australian Gas Networks, Wales & West Gas Networks and Dutch Enviro Energy as well as other complementary infrastructure companies. At a consideration of approximately US$611.46 million (approximately HK$4,800 million), the agreement represents a long-term investment which is poised to generate stable investment income for the Group in the coming years.

Fighting climate change

In December 2018, 196 governments around the world agreed on another milestone towards a sustainable global climate policy, which defines the path to be followed by each of them on climate protection. As a player in an essential utilities sector in so many markets around the world, we are fully committed to supporting local governments to achieve this goal.

By investing in innovation and collaborating with other industry leaders, many of our businesses made encouraging progress with numerous innovations and research projects that will help combat climate change by cutting carbon emissions.

In Hong Kong, HK Electric secured government approval to invest HK$26.6 billion in the next five years to build the infrastructure that will enable the company to increase the proportion of gas-fired generation. Three new gas-fired units will be commissioned before 2023 to replace retiring coal-fired units, bringing gas-fired generation to about 70% of total generation.

Outlook

Moving into 2019 preparations for regulatory resets in the UK gas sector and the Australian electricity sector will continue, including stakeholder engagement and other initiatives.

As the new SCA regulating HK Electric's business came into effect on 1 January 2019, there is a material drop of approximately 20% in the rate of permitted return. HK Electric is also undertaking a significant capital investment programme of HK$26.6 billion under the 2019-2023 Development Plan. As such, barring unforeseen circumstances it is envisaged that there will be an approximately 20% reduction in future distributions from HK Electric Investments in the next few years.

The 1,400MW Zhuhai coal-fired power plant and 200MW Siping cogeneration plant will be transferred to the mainland Chinese joint venture partners in 2019, pursuant to co-operative joint venture agreements signed in 1995 and 1997 respectively. Together with the increase of gas-fired generating facilities under construction in Hong Kong and the planned coal-to-gas conversion of Sheerness Power Plant in Canada, Power Assets' coal-fired facilities will be substantially and steadily reduced.

Power Assets' goal is to deliver sustainable long-term value increase for our shareholders. We will continue to look for appropriate opportunities to expand our presence in stable, well-regulated markets through investment in low-risk assets with assured revenue streams.

I would like to express gratitude of the board to our shareholders for their support over the years, and in the years to come. I would also like to acknowledge our dedicated and skilled colleagues across all of our operating businesses all over the world.

Fok Kin Ning, Canning
Chairman
Hong Kong, 20 March 2019